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George Bush is turning out to be no liberal. Truly ... More on this week's lead article

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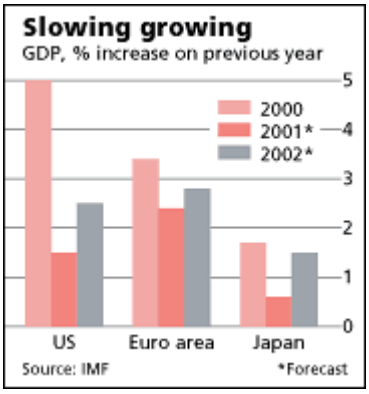
Business this week

Apr 26th 2001
From The Economist print edition

Bigger but slower



The IMF's *World Economic Outlook* forecast that **world economic growth** would slow this year to 3.2%, down from 4.8% in 2000. All the big economies were predicted to slow, but Europe less than America. The world economy is then expected to recover a little in 2002, when output could grow by 3.9%.

See article: The world economic outlook

The *World Competitiveness Yearbook*, published by the International Institute for Management Development, once again showed America as the best place for **business competitiveness**. Still second was Singapore, despite its poor rating for democratic accountability. Finland, Luxembourg and the Netherlands occupied the next three places.

Small scotch

Bank of Scotland, having failed in previous attempts to merge with two larger British rivals, NatWest and Abbey National, began talks with **Halifax**, Britain's biggest mortgage lender. Bank of Scotland's latest attempt to woo a partner could encourage other bidders to enter the fray.

See article: Bank mergers

Morgan Stanley, an American investment bank, plans to show the door to 1,500 staff. **Merrill Lynch** also plans to get rid of up to 10% of its investment-banking division, some 200 employees. More announcements of bankers looking for alternative employment are expected soon.

See article: Lay-offs on Wall Street

UR sacked, : (

Ericsson, a Swedish mobile-phone maker, responded to a drastic slide in handset sales—41% down in the first quarter compared with a year ago—and big losses. It said that it would shed 12,000 workers and also announced a joint venture with Sony's handset division to make and market new phones.

See article: Mobile phone woes continue

Motorola, America's biggest handset maker, also reacted to falling sales, by closing a Scottish factory employing 3,100 people. The British government is trying to recoup £17m ($25m) paid in regional aid to the company since 1995.

The prospects for **third-generation mobile telephones** suffered a setback. After criticism of the high prices paid for licences to run 3G services came news that technical problems would delay 3G's launch in Japan until October. NTT DoCoMo's announcement means that 3G's first roll-out may now be achieved by British Telecom in that hot-bed of technological advance, the Isle of Man.

After months of pressure from disgruntled shareholders, **Sir Iain Vallance**, chairman of British Telecom, is to step down, to be replaced by **Sir Christopher Bland**, chairman of the BBC.

A consortium led by Sir Anthony O'Reilly, an Irish media tycoon, and including George Soros, a financier, was reported to be ready to bid *euro*2.6 billion ($2.3 billion) for **Eircom**, Ireland's formerly state-owned telecoms operator. This would exceed a rival offer from a consortium headed by another Irish entrepreneur, Denis O'Brien.

JDS Uniphase, a leading optical-equipment maker, said that it would lay off 5,000 staff, 20% of its workforce, in order to cut costs in response to falling spending by telecoms firms.

Lucent, the world's biggest telecoms-equipment company, reported losses for the quarter to the end of March of over $5 billion. Yet improving revenues and a planned restructuring cheered investors; the company's shares rose by more than 10%.

Compaq Computer revealed profits for the first quarter of $200m, above the forecasts of pessimistic analysts but still a third down on a year earlier. But **3M**, an American technology conglomerate, issued a profits warning for the next quarter and said that 5,000 jobs would go, around 7% of the total.

Rupert Murdoch, the head of News Corporation**,** met top **General Motors** bosses to present a bid for DirecTV, America's leading satellite broadcaster, and part of the car maker's **Hughes Electronics**. Mr Murdoch has long coveted DirecTV as a way of adding an American arm to his Sky Global Networks.

An American government committee failed to clear a bid by **ASM Lithography**, a Dutch semiconductor firm, for **Silicon Valley Group**, a maker of electronics components that can be used in spy satellites. America's Defence Department expressed concerns over the transfer of sensitive technology to "hostile" countries. President George Bush will now have to rule on the deal.

Shell game

A takeover bid of A$10 billion ($5.1 billion) for Woodside Petroleum, an Australia-based oil and gas company, by **Royal Dutch/Shell**, was surprisingly blocked by the Australian government for being "contrary to the national interest".

See article: Shell rebuffed in Australia

The dispute between **Enron** and the Indian state of **Maharashtra** over the American energy company's power plant worsened when Enron authorised its local managers to terminate the contract.

General Dynamics said it had agreed to buy **Newport News Shipbuilding** for $2.6 billion. If the bid is approved by the government, General Dynamics would become the sole producer of aircraft carriers, destroyers and submarines for the American navy.

Britain's **Hilton Group** gained another 154 hotels through the acquisition of **Scandic**, a Swedish hotel company, for £612m ($881m). SAirGroup, owner of Swissair, is selling its hotel company, **Swissôtel**, to **Raffles Holdings**, a Singapore-based hotel group, for SFr520m ($305m). SAirGroup is also planning to change its name back to Swissair Group, and is considering selling two loss-making French subsidiaries.

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The world this week

Apr 26th 2001
From The Economist print edition

New face for Japan

AP

Junichiro Koizumi became **Japan**'s prime minister after winning the clear support of the Liberal Democratic Party, the main partner in the ruling coalition.

See article: Japan's new prime minister

Having annoyed the Chinese by agreeing to sell destroyers, submarines and much else to **Taiwan**, George Bush further upset them by stating that America had an obligation to do "whatever it took" to help the island defend itself.

See article: Arms for Taiwan

Joseph Estrada, the deposed president of the **Philippines**, was taken to jail pending his trial on corruption charges.

See article: Estrada arrested in the Philippines

India and Bangladesh were reported to be sending extra troops to their ill-defined border after the deaths of 19 Indian soldiers in a skirmish.

Australia is considering cutting the quota of 12,000 asylum-seekers it takes each year because thousands are entering the country illegally.

Scott Waddle, the captain of an **American submarine** that sunk a Japanese fishing boat with the loss of nine lives, was reprimanded for not following "proper procedures". He left the navy with his rank and pension intact.

Independence delay

Parties wanting independence for **Montenegro**, the junior partner with Serbia in the Yugoslav federation, won a general election but failed to win the two-thirds of the seats in parliament needed to change the constitution. It is unclear if and when a referendum on independence will take place.

See article: More uncertainty in the Balkans

The **French** government announced plans to oblige any employer laying off 1,000 or more workers at a time to pay double the present amount of severance pay and offer six months of retraining.

See article: Rewriting French labour law

AP

In a bid to draw attention to **Chechen** rebels fighting for independence from Russia, a dozen gunmen, most of them Turks, took around 120 people, most of them foreign, hostage in a hotel in Istanbul, but later released them unharmed. The gunmen were put in prison.

Ukraine's parliament voted out the country's pro-western reforming prime minister, Viktor Yushchenko.

See article: Ukraine's reformer goes

Reform of the EU's **common agricultural policy** was set back when a majority of EU farm ministers rejected a plan gradually to remove subsidies from sugarbeet growers.

Plot thickens

Internal quarrels within **South Africa**'s ruling party broke into the open. Steve Tshwete, the security minister, said that three of the most prominent ANC members outside the government, Cyril Ramaphosa, Tokyo Sexwale and Mathews Phosa, were under police investigation regarding an alleged plot against President Thabo Mbeki.

See article: South African scandals

At a conference on **AIDS**, attended by some 50 African heads of state, the UN's secretary-general, Kofi Annan, called for a war chest of $7 billion-10 billion a year over an extended period. More than 25m Africans live with HIV but current spending on the epidemic in poor countries is only $1 billion a year.

The heads of **Nigeria**'s army, navy and air force all retired amid speculation that President Olusegun Obasanjo might be trying to rid the armed forces of men loyal to the previous regime.

Israel imposed a total blockade on the **West Bank and Gaza** before its independence celebrations on April 26th. Earlier violence brought the death of an Israeli doctor in a suicide bombing inside Israel and that of a 12-year-old Palestinian at a funeral in Gaza.

See article: Israeli settlements and the intifada

A feminist writer, Nawal el-Saadawi, risks being charged with apostasy in **Egypt** for calling for the abolition of the Islamic inheritance law, and for criticising the annual pilgrimage to Mecca. But a French court has thrown out a case brought by the presidents of Congo-Brazzaville, Chad and Gabon against François-Xavier Verschave for writing a book criticising their regimes.

At the summit

EPA

The leaders of 34 countries met at the third **Summit of the Americas** in Quebec city. All of them except Venezuela's Hugo Chavez backed plans for a free-trade area of the Americas by 2005, and to exclude from future summits any country in which democracy had been overthrown. Some 25,000 opponents demonstrated against free trade. A few hundred battled police.

See article: Free traders meet in Quebec

Bob Kerrey, a former Senator and presidential candidate, admitted that he led a mission in the Vietnam war that killed at least 13 unarmed civilians.

The United States suspended its drugs-surveillance flights in Latin America after a civilian aircraft was shot down by the Peruvian air force, killing an American missionary and her baby. An American spy plane had identified the aircraft as possibly carrying drugs, but American officials blamed **Peru** for the incident.

The United States Supreme Court ruled that individuals could not sue states to prevent infringements of federal **civil-rights regulations**. The suit was prompted by Alabama's English-only driving exam which contradicted federal discrimination laws.

A former **Ku Klux Klan** member went on trial in Alabama charged with a 1963 church bombing that killed four black girls. The bombing came only months after Governor George Wallace had proclaimed “segregation forever” at his inauguration.

Mexico’s Senate unanimously approved a constitutional bill granting autonomy to 10m Indians, in an important step towards peace talks with the Zapatist rebels.

Argentina’s president sacked the central-bank governor, ostensibly over a money-laundering scandal. The new governor, Roque Maccarone, is close to Domingo Cavallo, the economy minister.

See article: Cavallo’s crunch

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That shocking conservative

Apr 26th 2001
From The Economist print edition

George Bush is turning out to be no liberal. Truly

Get article background

AMERICA'S political commentators have had some stunning surprises to cope with since the turn of the year. First came the shock of Bill Clinton's misconduct during his final days in office. So bizarrely out of character. Still reeling over that, they next began to suspect that George Bush may be, get ready for this, a conservative. That's right, a conservative. Now, as he approaches the end of his first hundred days, Mr Bush's shocking conservatism is becoming hard to deny.

Come to think of it, though, is it really so shocking? You could say there were clues all along about where Mr Bush stood on foreign policy, taxes, regulation and the environment—the issues on which he has puzzled some Americans and (so far as the environment is concerned) aroused a great outcry abroad. Arguably, one such indication of his true beliefs was that he kept on stating them all last year. But no, that won't wash. No sooner did he reveal these traces of his real agenda than he covered them over by declaring himself a "compassionate conservative". What audacious dissembling, his critics declare. Obviously, a "compassionate conservative" cannot be an actual conservative: compassion is good, whereas, it is widely recognised, conservatism is bad. Mr Bush said he was a good man, and now he turns out to be a conservative. Not only that, but one who wants to keep his promises. America just isn't used to this.

The man and the math

Now that the shock is beginning to recede, it is time to ask of Mr Bush's early positions whether they are as frighteningly "hardline" as his critics say. After that you could even ask whether, hardline or otherwise, they make sense.

The president's first approach to foreign policy, it is fair to say, lacked finesse. Some were swift to draw connections between Mr Bush's forthright approach to China and the subsequent stand-off over America's spy plane. But Mr Bush's handling of that crisis was hardly that of a new cold warrior. It was measured enough, anyway, to satisfy Democrats—measured, you could say, to a fault ("two verys, and not a very more"). Democrats are angry that Republicans applauded this unReaganesque performance, but you cannot have it both ways: if it was moderate and cautious, it was not recklessly conservative, or recklessly anything. New doubts have now arisen over the president's policy towards Taiwan (see article). Has he promised, or not, to help Taiwan in a fight with China? Maintaining the right balance of "strategic ambiguity" on this is difficult—but that is apparently what Mr Bush, albeit clumsily, is trying to do.

Elsewhere, Mr Bush made no secret during the campaign of his desire to reorder American priorities. In particular, he made plain his interest in a missile-defence system—an idea instantly denounced by America's allies but which Europe, at any rate, may now be coming round to. A unilateralist tendency in the policy of the new administration is apparent, but unilateralism guided by enlightened self-interest implies neither isolationism nor hawkishness (which are opposites, on the whole, though Mr Bush has been accused of both).

At the centre of the president's domestic plans is his proposed tax cut of $1.6 trillion—adequately trailed, you might suppose, during the campaign. Is this the idea that puts the Bush presidency beyond the ideological pale, stamping the president not just as an ordinary not-liberal conservative but as a far-right nutcase, as some frothing pundits seem to believe? For heaven's sake. The government is collecting more money than it needs: letting taxpayers keep more of their incomes under such circumstances is not, at first sight, capitulation to the lunatic fringe. We have this from no less an authority than Al Gore—

could anybody doubt that man's compassion?—because he too proposed a big tax cut during the campaign, albeit less than $1.6 trillion. *The Economist* has reservations about the Bush plan, over its size and especially over the plausibility of spending projections in the rest of the budget. But please don't call the president's proposal hardline when it is merely, well, conservative.

Much the same goes for what Mr Bush has said so far about regulation. Bill Clinton's closing flourish of activity included dubious executive orders on workplace regulation and water safety, among others. It is easy to lampoon Mr Bush for adding arsenic to the water or favouring more cases of repetitive-strain injury in offices. It is also very stupid, since in deciding where to set limits in these cases the benefits, such as they are, of tighter rules need to be weighed against the costs, which are great. Mr Bush's insistence that costly controls must be justified falls well inside mainstream conservatism—and happens to be correct, by the way.

What Mr Bush has decided about the Kyoto agreement on global warming needs to be seen in the same light. The president is not in fact calling, as many European newspapers reported, for life on the planet to be wiped out. Probably, he would not favour this even if it could be achieved cost-effectively. He rejected the agreement simply because it does not make sense for the United States. Now, though, the administration must quickly move on and say what, if not Kyoto, the world should do about global warming: an issue which, Mr Bush has acknowledged, is real and pressing.

Was Mr Bush, technical victor of a bungled election, obliged to govern as though he were Al Gore, or to form some bogus consensual average of an administration, where nobody is trying to do what he believes to be right? In a system with America's checks and balances, that seems unnecessary and undesirable. If he expects to be re-elected, Mr Bush must govern well, or at least be seen to govern well. At a hundred days, it is roughly four years too soon to say whether he will succeed in either respect. It is also too soon to say how moderate or extreme a conservative he will be. On the basis of what is already known, however, did he gain power by pretending to be somebody else, by deceiving people about what he thinks good government means? No, he did not.

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Keeping their balance

Apr 26th 2001
From The Economist print edition

Will China take America's arms sales to Taiwan as a provocation, or as a reason to start talking?

Get article background

EPA

TALK of a new "cold war" between China and America is starting to sound like an understatement. This week Chinese officials were expressing their "anger" at the largest sale since the early 1990s of American weapons to Taiwan, which China claims as its own. Meanwhile, the two still trade bad-tempered barbs over the recent mid-air collision that left a Chinese pilot dead and forced an American spy plane to make an emergency landing on China's Hainan island. And China has been fuming at the prospect of a trip (now delayed) to America, shortly after a controversial trip to Japan, of that "arch-splittist", ex-President Lee Tung-hui of Taiwan, not to mention the possible stop-over later in May of his excoriated successor, Chen Shui-bian. But it is America's arms for Taiwan that irk China most. It is bound to retaliate. The America-China relationship is difficult to keep steady in better times. Will it now careen out of control?

That could happen. George Bush will not sell Taiwan everything it asked for: for now, he has withheld advanced anti-missile batteries and warships equipped with state-of-the-art Aegis air-defence radars (see article). But, unlike previous administrations, Republican and Democratic, he has agreed to help Taiwan buy diesel-powered submarines. That makes the weapons sale potent enough to offend China's generals, who have recently played a bigger part in making Taiwan policy and will now push hard to pay America back, even though China's diplomats may be quietly relieved that Taiwan's haul was not bigger. None of the Chinese, however, can have enjoyed Mr Bush's apparent commitment in a television interview to defend Taiwan against Chinese attack. This gave rise to speculation that he was breaking with America's long-standing policy of "strategic ambiguity". In any event, tempers are unlikely to cool quickly.

Yet the prospects for steadier relations between America and China may be better than the current bluster implies. Mr Bush has an increasingly tricky balance to strike. He needs to promise enough protection to Taiwan to ensure that China does not feel free to make a grab for the place, a promise he spelt out unambiguously in both weapons and words this week. Yet his officials also need to go on making it just as clear to Taiwan that it cannot recklessly provoke China and then expect to have others defend it. And he needs to fend off those in Congress who want to vent their frustration by curtailing trade with China, and who seem ready to fight China to the last Taiwanese. To judge by the criticism all round, the arms sale will keep this balance. That leaves China's leaders with some hard thinking to do.

Even without the latest batch of American arms for Taiwan, the Chinese could not hope to invade the island—as they threaten to do, should it declare its independence—without destroying it. Even a blockade of East Asia's fourth-largest economy, using the missiles China has pointed at the island and at the nearby sea lanes, would destroy the regional stability on which China's own prosperity depends. Similarly, Taiwan's safety rests not on any particular weapons system, but on America's commitment to ensure that, however China and Taiwan resolve their differences, they do so peacefully. Mr Bush's message to China this week was that the more China threatens Taiwan, the closer America will stand by it.

Listen and learn

The message from Taiwan's voters, who show little support for declaring independence, but little readiness to be swallowed up by the mainland either, has been equally clear. When China fired off missiles in 1996 in an attempt to prevent them electing Mr Lee, then last year used verbal threats to try to turn them away from Mr Chen, the reply each time was a raspberry. Some of China's leaders have started to listen and learn. Although they still talk of "one country, two systems", rather than the "one

nation, two states" that many Taiwanese might prefer, they now suggest that Taiwan should be treated as an equal, not a renegade province.

All that is for China and Taiwan to settle between themselves. Outsiders, including Europe and Japan, as well as America, all of whom have an interest in the stability of the region, can help best, not by pushing any particular outcome—one China or an independent Taiwan—but by helping Taiwan to safeguard its security until its differences with China can be resolved in a way the Taiwanese can accept. Standing on that principle, as America did this week, encourages China to resort to negotiation rather than confrontation.

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Transatlantic money tiff

Apr 26th 2001
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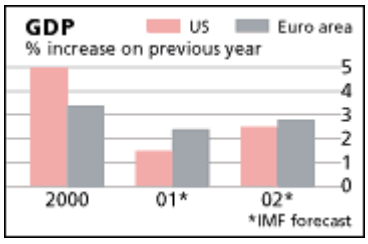
America is wrong to try to browbeat the European Central Bank into cutting interest rates



"I HEAR but I do not listen," remains the response of Wim Duisenberg, president of the European Central Bank, to the clamour for lower interest rates. From its birth the ECB has been a popular butt of criticism. First it was accused of lacking transparency; now it is blamed for not pulling its full weight in the world economy. The ECB is the only big central bank that has not cut interest rates this year. Paul O'Neill, America's treasury secretary, recently declared himself "mystified" at the bank's complacency in the face of America's slowdown. When G7 finance ministers and central bankers gather in Washington this weekend, the ECB will again come under pressure from the Americans to cut interest rates.

Our advice is that the Americans should lay off. Not only is the case for an immediate cut in European interest rates weaker than they claim, but putting pressure on central bankers is also often counterproductive.

America's Federal Reserve has cut interest rates by two full points this year, to 4.5%. The ECB has left interest rates unchanged at 4.75%. The economies of the euro area are in healthier shape than America's. Yet it is widely argued that, as the American economy slows and Japan's continues to stagnate, Europe ought to take up the slack and act as the new locomotive powering the world economy. The Fed's surprise rate cut last week should, on this basis, have increased the case for the ECB to follow its lead.

This is nonsense on stilts. Monetary policy is not a game of "follow my leader", but of setting the right policy in the light of domestic inflation and growth prospects. On this basis, the ECB's scope for interest-rate cuts is more limited than its critics claim. Inflation figures for March showed that core inflation (1.8% excluding energy and food) is still rising; the headline inflation rate (2.6%) looks likely to remain above the ECB's ceiling of 2% for most of this year.

Germany's economy has admittedly weakened, but the ECB's job is to set interest rates for the whole euro area, not just Germany. Growth forecasts for the euro area have been trimmed, but the IMF still expects GDP to grow by 2.4% this year, close to the euro area's estimated long-term sustainable growth rate of 2 1/4-2 1/2%. Moreover, there is little or no economic slack: euro-area output is probably close to its maximum potential already. The conclusion is that, unless growth slows more sharply than expected, interest rates are now about right, given the ECB's prime goal of holding down inflation. What is lamentable is that the euro area's potential growth rate is so low, but there is little the ECB can do to boost it. That requires structural reforms by European governments.

A little help for our friends?

Does the ECB not have a duty to do more to help the rest of the world, even so? Experience suggests that the best way to do this is to ensure that growth in the euro area is maintained at a sustainable pace. Previous American advice to other countries has often gone badly wrong. At the Bonn summit in 1978 the Germans gave in to pressure to reflate and to act as the world locomotive. It proved to be a big mistake, contributing to the following surge in world inflation. In the late 1980s, Japan also gave in to American nagging to run a laxer monetary policy. The result was a bubble in share and land prices that burst painfully in the 1990s.

Mr Duisenberg may thus be right to "wait and see", even if his comment that "there are no indications of a risk of global recession" is too complacent. There is a serious risk of a recession in America. And the risks to Europe's growth prospects—from America and from the global tech slump—are on the downside. So the ECB may, in the coming weeks, be wise to take out an insurance policy by cutting rates if it seems

that America's downturn will be deeper. But it will be far readier to do this if the Americans stop their harangue now. As one European central banker has put it: "We are like whipped cream: the more you beat us the harder we become."

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Fit to run Italy?

Apr 26th 2001
From The Economist print edition

The known facts about Silvio Berlusconi, never mind the unanswered questions, rule him out for high office, even though his countrymen seem poised to make him prime minister

Get article background

AP

IN ANY self-respecting democracy it would be unthinkable that the man assumed to be on the verge of being elected prime minister would recently have come under investigation for, among other things, money-laundering, complicity in murder, connections with the Mafia, tax evasion and the bribing of politicians, judges and the tax police. But the country is Italy and the man is Silvio Berlusconi, almost certainly its richest citizen. As our own investigations make plain (see article), Mr Berlusconi is not fit to lead the government of any country, least of all one of the world's richest democracies.

Many of Mr Berlusconi's supporters, who include most of Italy's businessmen, decry such criticism as born of naivety, ignorance and malevolence. They say that it is he, not the Italian people, who is the victim of dishonesty. They say that ever since he entered politics, only seven years ago, he has been persecuted by left-wing magistrates, journalists and politicians, all jealous of his wealth and fearful of his intention to renovate Italy and do away with the old guard. They add, moreover, that even if Mr Berlusconi did pay off tax inspectors (under duress, of course), what of it? That was the way that business in Italy was done when he made his fortune. He was no worse than anyone else—only cleverer, and a bigger target. Why pick on the man who has the vision, flair and courage to offer his services so magnanimously to the nation?

Besides, the excusers' mantra goes on, it has become clear that most Italians, including many on the left, have grown bored with the long-running saga of Mr Berlusconi's legal travails. Many of his countrymen have a not-so-sneaking regard for the way in which he has cocked a snook at the tax laws—and at the authority of the state. If he can do so well for himself, surely he is all the more qualified to help Italians at large.

Plausible but wrong

Alas, nothing in this barrel of casuistry holds water. The questions and concerns about Mr Berlusconi are voiced not just by opponents on the left. The notion that he was himself the main victim of dishonest tax inspectors and malign magistrates is fanciful. Never do those who defend him mention the losses to the state—in other words, the Italian people—that would result from the waiving of taxes by the tax inspectors he is said to have bribed. Besides, Mr Berlusconi is under investigation for crimes that are not mere peccadillos committed in the face of red tape and nitpicking taxmen. True, under Italy's tortuous judicial system, in only one case against him has a final verdict been handed down: this case involved illegal political donations and the court did not find him innocent. But our investigation shows that he has a compelling case to answer on a string of grave charges. In addition, his strange and long-standing reluctance to explain the origin of his earliest sources of wealth casts a pall over his entire business reputation.

In any event, in any normal country the voters—and probably the law—would not have given Mr Berlusconi his chance at the polls without first obliging him to divest himself of many of his wide-reaching assets. The conflict of interest between his own business and affairs of state would be gargantuan. Worth perhaps $14 billion, he is intricately involved in vast areas of Italian finance, commerce and broadcasting with ramifications into almost every aspect of business and public life; his empire includes banks, insurance, property, publishing, advertising, the media and football. Even during his ill-fated earlier stint as prime minister, in 1994, he issued an array of decrees that impinged heavily on his commercial activities. If he wins again on May 13th, he will control a good 90% of all national television

broadcasting. He has made not the slightest effort to resolve this clear conflict.

Why so little concern in Italy?

There are historical reasons why so many Italians are unswayed by the case for keeping Mr Berlusconi out of high office. It is a sad truth that for years they had little cause to respect the institutions or rules of the state. Until a decade ago, Italy was run according to a corrupt arrangement under which all the supposedly respectable parties, usually led by the Christian Democrats, ruled in perpetual but oft-changing coalition to keep communists and fascists out of office. After the fall of the Berlin Wall in 1989, centrists and refashioned ex-communists filled the gap that opened up on the left, while Mr Berlusconi's movement jumped into the vacuum on the right. The *mani pulite* (clean hands) campaign against corruption after 1992 was enthusiastically taken up by the people and, all in all, venality is less pervasive than it was. But the same old attitude of disrespect for laws, institutions and the courts lingers. And Mr Berlusconi, peddling amiability and showmanship, has persuaded many Italians that he at least stands for something new. We show that in the central matter of probity that is not so.

Which is far from saying that Mr Berlusconi does not offer some sensible policies, or that Italy has no need of reform. The judicial system might well benefit from an overhaul. Indeed, the entire constitution is ripe for change. The executive is too weak, the legislature too prone to indecision, the voting system too proportional. But these problems are of a different order to the one of suspected criminality at the top.

Mr Berlusconi's strongest claim is that many of the charges against him—whether of conflict of interest or of much greater crimes—have been known for years, and yet most Italians seem untroubled. In other words, though the judiciary may not agree, the court of public opinion finds him innocent. If the judiciary is indeed politically motivated, that is a terrible condemnation of the Italian state. If, on the other hand, the judiciary is independent, the public's acquittal is a terrible condemnation of the electorate. Either way, the election of Mr Berlusconi as prime minister would mark a dark day for Italian democracy and the rule of law.

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A new face for Japan

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From The Economist print edition

Junichiro Koizumi's achievement in winning the leadership of Liberal Democrats is impressive—and so is the battle in front of him

EPA

"THIS is a total reversal of the past," declared Junichiro Koizumi as he won the election for the presidency of Japan's Liberal Democratic Party (LDP), and with it the prime ministership. And he was right. In Japanese political terms his accession, shoving aside the anointed candidate of the party bosses, was little short of revolutionary. But now, as history has repeatedly shown, there is bound to be some form of counter-revolution.

Until even a week ago, no one would have given much for Mr Koizumi's chances. His main opponent, Ryutaro Hashimoto, had appeared to have the LDP election stitched up. His faction, after all, is by far the largest of the LDP's groups and always used to get its way. A conservative alliance between business, the banks and the rural voter, it is one of the main impediments to the reforms that Japan so badly needs, and which Mr Koizumi is trying to deliver.

Mr Koizumi's victory was a consequence of an apparently minor change to the party's election procedures, which expanded the vote given to ordinary party members by giving each of Japan's 47 prefectures three votes, out of a total of 487. Because they were mostly cast as blocks, the result was startling: a landslide for the unorthodox Mr Koizumi, with his silver suit, dishevelled hair and professed liking for heavy metal music. When the parliamentarians came to vote, the result of the "primary" prompted enough of the other factions to back Mr Koizumi to ensure his victory. That, however, was the relatively easy part. He now has to deliver.

The new prime minister's biggest difficulty is probably his own party. The sorts of reforms he talks about—slashing government spending to restore the public finances and allowing heavily-indebted businesses to go bust—are anathema to the LDP's traditionalists, who have systematically watered down all attempts in the past to dispense similar medicine. Such changes, after all, would hit hardest at some of the LDP's most committed, and generous, supporters.

The pressure on Mr Koizumi to backtrack will be intense, and unfortunately, there are already signs that he is ready to do so: he is talking about the virtues of compromise, and has struck some sort of a deal with Shizuka Kamei, one of the main LDP architects of Japan's failed attempts to spend its way out of the recession that has afflicted it since the early 1990s. Could Mr Kamei's endorsement mean that Mr Koizumi is already shifting before even being sworn in?

Nor will the pressures for immobility come only from within the party. After it lost its majority in the 1998 election for the upper house of parliament, the LDP was forced into coalition government, and is now dependent on the much smaller New Komeito and New Conservative Party. But New Komeito is resistant to the kinds of reforms that Mr Koizumi is billed as wanting to make. Any attempt to end the privileges of Japan's farmers, shopkeepers or postal workers (the privatisation of the post office, with its vast savings deposits, is a pet project of Mr Koizumi's) will not go down well.

Mr Koizumi's other main task is to avoid an electoral catastrophe for his party this July in the election to the upper house. His victory, after all, comes courtesy only of the LDP's members, not the voters at large. Though he will be able to claim that after barely two months it is hardly his fault if the LDP-led coalition loses its majority in the upper house, as was expected at least until Mr Koizumi took over, such an outcome would make the business of governing Japan nearly impossible: the upper house, though not as influential as the lower house, has extensive powers of veto. The leader of the main opposition party, Yukio Hatoyama, has already vowed to use victory in July to force a new election for the lower house, which might smash the LDP there as well.

Stand and deliver

How can Mr Koizumi avoid this awful fate? Only by delivering reforms that actually seem to be working. The trouble is that the timing is so tight. True, voters seem to be fed up with the LDP's spendthrift ways, which have already taken Japan's debt to 120% of GDP, the highest ratio in the developed world. And true, too, that they are concerned about a banking system which, on a broad definition, is reckoned to have more than $1 trillion in bad or doubtful debt on its books. But reforming either of these inevitably means short-term pain. The benefits would not appear until long after the election.

Besides, for all his carefully cultivated maverick image, Mr Koizumi is rather an insider, the son and grandson of former LDP members of parliament, and a minister in two previous cabinets, including that of Mr Hashimoto when he was prime minister. Mr Koizumi loyally supported the disastrous outgoing prime minister, Yoshiro Mori, almost to the end.

Yet if there is one thing that emerges from all opinion studies and recent by-elections, it is that the Japanese are fed up with established politicians, whether of the LDP or of the main opposition party, the Democratic Party of Japan. Time after time, they have rejected the mainstream candidates in elections, preferring instead novelists, NGO workers or entertainers. By reaching over the heads of his party elders, and campaigning in a deliberately American style, Mr Koizumi has at least shown that he understands the problem, and that he offers some of the right solutions. He will need, and he deserves, a lot of luck in implementing them.

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Missing the point

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Britain is leading the world in setting exacting performance targets for its public services. But there are better ways of getting value for government money

WHEN the British government set local authorities a target for collecting recyclable waste, it seemed a good idea. Even better, the local authorities persuaded residents to take the trouble to separate the stuff that was worth recycling from all the rest—and met their target. There was only one snag. The target was for collecting recyclable waste, not for recycling it. As a result, some local authorities put the rubbish that had been so carefully separated back in with the rest of their garbage, and incinerated the lot.

More than any other country, Britain has taken to relying on output targets as a way of getting the best out of its public services. Government departments are currently striving to meet around 600 of them (see article).

The government's determination to focus on the public sector's output is laudable. After all, ministries have for decades measured their success in terms of the size of their budgets—rather as though a business were judged a success when its costs, not its profits, were rising. But targeting, as the cautionary tale of the rubbish suggests—and as the history of the Soviet Union's economy argues—is not a reliable way of extracting value either.

Targets need to be simple, or they are no good as a management tool. Yet public services are often trying to fulfil many objectives. If public servants are asked to focus on one measure, they will (rightly) ignore the others. So when the government set a target for reducing class sizes within primary schools, these duly fell—and secondary school class sizes rose. And when the government set a target for raising literacy and numeracy, children became more literate and numerate—but at the cost of squeezing out other beneficial activities such as sport.

At worst, targets create "perverse incentives"—when workers are cleverer than targeters, and find ingenious, and not necessarily desirable, ways to meet their targets. That is why, for example, the government's commitment to reduce the hospital waiting list is now widely discredited. The target, cutting the number of people waiting for treatment by 100,000, has been met. But the number of people waiting to see a specialist—waiting to be put on the waiting list, in other words—increased. And Sir Barry Jackson, president of the Royal College of Surgeons in England, has said that the target has distorted clinical priorities: minor disorders can be dealt with more swiftly than serious illnesses, so managers have been putting pressure on surgeons to give smaller problems priority over larger ones.

Most pernicious of all, targets are based on the illusion that the centre can drive change, that the man in Whitehall knows best. The opposite is true. Improvements in public services will generally come from individuals and teams finding better ways to work. The objective should be to spread best practice through benchmarking, not to dictate from the centre. Targets encourage bureaucracy and are thus likely to stifle initiative on the ground.

The customer is always right

Targets do have a role in areas of government where the market cannot easily reach—defence, for instance, and policing. But in areas such as health and education, where there is scope for more consumer choice than people are currently offered, targets are a poor substitute for the disciplines of the market. Rather than wasting public servants' time forcing them to measure their performance against some arbitrary target, let consumers measure the public servants' performance against each other.

If the government is serious about extracting as much value as possible from its public services, it should focus more on transparency than on targets. Tell people everything they might want to know about waiting lists, mortality rates, class sizes, exam pass rates and sporting successes and give them the power to choose between different providers. Winning custom is the toughest, and best, target of all.

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What to do about Microsoft

Apr 26th 2001
From The Economist print edition

A break-up looks unlikely, but it is still the best solution

Get article background

EPA

IN A few weeks' time, an appeals court in Washington, DC, will deliver its verdict in the latest stage of the Microsoft trial. For the benefit of readers who have been living on Mars, the case stands as follows. Last April, Microsoft, the world's biggest software company, was found guilty of antitrust violations and declared an abusive monopolist by Judge Thomas Penfield Jackson. The judge decreed that Microsoft should be split in two: an operating-system company (which would own Windows) and an applications one (which would own Office, Internet Explorer and other software).

This verdict was a devastating defeat for Microsoft, which duly appealed. The case went back to court in February. The appeals-court judges have, however, made clear through their questioning that they think the break-up plan is flawed. They have also expressed concerns about the conduct of Judge Jackson, who spoke to the press and to an author of a book about the case, in defiance of legal protocol. The plaintiffs (the Justice Department and 19 state attorneys-general), who were cock-a-hoop last year, are now more subdued—though the case may yet go to the Supreme Court. But, with a new administration in place that is less hostile to Microsoft, a break-up seems unlikely. The company may be let off with the equivalent of a slap on the wrist, in the form of some conduct remedies, and perhaps a large fine.

Opponents of the break-up always argued that it was disproportionate. They also pointed out that the software industry has moved on. All those arguments about tying, web browsers and consent decrees date from a bygone age; the talk now is of web-services platforms, XML and wireless devices. Everything is up for grabs in this new market. Is not breaking Microsoft up merely refighting yesterday's wars?

Break it up

The answer is no. The break-up was reluctantly proposed by Judge Jackson because no other remedy was likely to have any effect. Microsoft has proved expert at evading conduct remedies that were meant to change its behaviour in the past. And no other remedy looks any more likely to work now.

Thus, licensing the Windows source-code to other software companies or PC makers, so that they could develop their own versions, is a non-starter. Even assuming that anybody outside Microsoft could understand the code, the result would just be several mutually incompatible flavours of Windows. The same drawback would arise from splitting Microsoft into several "Baby Bills", each of which would inherit the software and be free to develop it as they saw fit. And swingeing fines would have little impact on a company that is sitting on nearly $30 billion in cash.

Ultimately, since the basis of Microsoft's misdeeds is the way in which it exploits its Windows monopoly to attack other markets, the answer is to undermine its offensive capability. And that means splitting Windows off into a separate company—still with the network advantages of a single operating system, but without the ability to exploit its monopoly in other areas, and with a big new competitor to boot.

Nor is a break-up merely a response to long-past misdeeds. Although the software industry has indeed moved on, Microsoft's recent behaviour suggests that a break-up is, if anything, more needed than ever (see article). Windows XP, the latest version of its operating system, which will be launched later this year, offers new examples of Microsoft's tendency to use the clout of Windows to extend its dominance into other markets. In particular, it plans to use Windows XP to ensure that .NET, its new strategy for delivering software as subscription-based web services, quickly gains a critical mass of users. Microsoft is

also using Windows XP to push its own music-playback software and its own new proprietary format for music files. In other words, Microsoft is up to all its old tricks again.

Alas, the most likely outcome now is that the case will drag on for several more years, while a bundle of ineffective conduct remedies is devised. Not that, even then, the case will have been a waste of time. Rather as with the long IBM case 30 years ago, its greatest impact may be felt in how the market reacted while it went on. The firm's competitors have been emboldened; and the music and cable-TV industries, wary of falling into Microsoft's clutches, have chosen not to adopt its software. But these market-imposed remedies may still not be enough to restrain Microsoft's monopolistic exploitation in future. A break-up remains the simplest and best solution.

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Letters

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From The Economist print edition

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Heated debate

SIR—Your leader on global warming ("Rage over global warming", April 7th) misses the point of the Kyoto agreement. In defining a structure of successive five-year commitment periods, it is indeed intended as a "longer-term plan, based on milder reductions at the start followed by more demanding targets farther out." The targets set for the first period, 2008-12, gave a 13-year lead time at the time of signing; it would be foolish to quantify later targets before gaining more experience with the first.

The commitments are not rigid and unachievable because of the extensive flexibility embodied precisely to accommodate American demands—the core point of the argument that you attribute to me. As a result, America could potentially meet its Kyoto commitment even if its own emissions stayed at their current levels, but it would be required to make extensive off-setting investments to help poor countries grow in lower emitting ways through Kyoto's market mechanisms. Before rejecting the fruits of such long negotiations, one should take care to understand what was achieved.

MICHAEL GRUBB
Imperial College
London

SIR—We are no more likely to get a better agreement on global warming from George Bush than we were to get a better NAFTA from Ross Perot. A brief and uneven step in the right direction is vastly superior to the more likely alternative—no steps at all. Arguments about the flaws of the agreement are thinly disguised rationalisations for an anti-environmental sentiment, which I am beginning to believe you share with the Bush administration. Between the assertions that the science of man-made climate change needs more study, the diplomatic blather and the deafening inaction, we will get just what we ask for: more hot air.

CHRISTOPHER BARE
Los Angeles

Dallas diverse

SIR—I take exception to your portrayal of Dallas/Fort Worth as lacking in cultural diversity (Business this week, March 24th). The Dallas/Fort Worth Metroplex is one of the fastest growing regions in America and is home to a very diverse population. It has the tenth-largest African-American population, eleventh-largest Hispanic population and seventeenth-largest Asian population in the country. Fort Worth is home to the renowned Kimball Art Museum and the new Bass Performance Hall. Dallas has the nation's largest urban arts district, including the Myerson Symphony Centre and, opening soon, the Nasher Sculpture Collection.

More than 50 notable companies have relocated or expanded in the region since 1990 because of its unique entrepreneurial climate. It is also home to the world-famous Telecom Corridor and numerous leading-edge technology companies. We believe the good people of Boeing will look favourably on this vibrant hub of entrepreneurial and cultural activity. And besides that, after years of attending Seattle Mariners games, Boeing workers will not miss a beat when Alex Rodriguez takes centre stage at the Ballpark in Arlington.

RICK PERRY
Governor of Texas
Austin

Rounded education

SIR—Your article on Sciences Po ("Fraternity equality", April 14th) overlooks a central point; the profound link between efforts to attract students from differing social backgrounds in France and the internationalisation of the Institut d'Etudes Politiques. Today, at Sciences Po, over 1,000 students out of 4,200 are foreigners, as are a quarter of the teachers. Among these students are over 500 other Europeans and 250 Americans. All undergraduates have to spend their third year overseas and all students have to study two of the nine foreign languages taught in the institute during their studies. A third of all teaching is in languages other than French.

We do not just reproduce the monolingual, culturally specific models from America, which have the dubious title of "international education". And we offer an alternative to the ubiquitous MBA as the only form of professional training in business.

DAVID CAMROUX
Director
Asia-Europe programme, Institut d'Etudes Politiques
Paris

Somaliland speaks up

SIR—I am the former minister referred to in an article on Somaliland ("The nation nobody knows", April 14th). I want to emphasise that I did not fix any price that would, as a result, benefit my business, as you purport. There is no gemstone mining company in the whole country and artisanal miners sell their crude stones to the highest bidder with absolutely no government intervention. No one can fix prices for nomadic people. I established a gemstone laboratory free of charge and just started doing initial geological exploration. I do not trade in gemstones. You were influenced by local NGOs of a clan with whom we fell out.

AHMED BEHI
Hargeisa, Somaliland

SIR—Somaliland's existence is remarkable considering the hostility it has to endure from multinational organisations like the OAU, Arab League and UN. Each has its reasons for trying to wipe the place off the map, mostly to do with abstract notions of "national sovereignty" and the "territorial integrity" of a non-existent country, Somalia. In fact, the rest of Somalia and indeed Africa have a lot to learn from the consensus-building techniques employed by Somaliland. They seem to have worked where countless initiatives sponsored by the UN and others have failed to end the misery and bloodshed.

AHMED JAMA-MOHAMED
London

Letter of resignation

SIR—You ask why, if work is so bad, the typical non-senior-management white-collar worker in America has not revolted ("What has work become?", April 7th). Revolt to what? Poverty? Bankruptcy? In addition to the answers you offer, the further availability of increasingly usurious consumer credit, along with a heightened expectation of the tremendous standard of living we should be experiencing, has encouraged many Americans to paint themselves into a corner: they cannot afford to keep their jobs and they cannot afford to quit them.

Even less-structured dotcom start-ups did not offer relief. They merely offered a differently decorated sweatshop. Colourful beanbags and espresso machines may have replaced the coffee pot and bland office furniture, and the "all-night work party" may have replaced the Saturday workday. For most Americans it is the same story at the end of the week: more than 40 hours toil for a 40-hour pay-cheque. A few have made it to Mahogany Row; the rest are posers struggling to make the payments on a borrowed lifestyle.

WILLIAM VANSICKLE
Gainesville, Florida

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Economist.com SPECIAL

An Italian story

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After next month's election, Silvio Berlusconi, Italy's richest businessman, is expected to become prime minister again. Yet he is still locked in a string of legal battles. His companies have used money from untraceable sources—and he even faces allegations of links to the Mafia

Get article background

AP

Hoping for leniency

ON APRIL 20th, in a drab courtroom in Milan, three judges met to hear evidence in a big trial. The case involved the alleged bribery of judges. Taped to the door was a handwritten list of the accused. At the top was Silvio Berlusconi's name.

This case illustrates vividly that Mr Berlusconi has not put his legal problems behind him. Shortly before he first became Italy's prime minister, in May 1994, his business empire, Fininvest, became a subject of the *mani pulite* (clean hands) investigations. This operation, launched by magistrates in Milan in 1992, had exposed deep-rooted corruption in Italian politics, the bureaucracy and business.

When Mr Berlusconi founded his political party, Forza Italia, in 1993, little was known about his business methods. He portrayed himself to Italians as a self-made man who had built up a powerful television empire by breaking the monopoly of Italy's state-owned broadcaster, RAI. He told them that he represented a clean break with Italy's corrupt past.

Since 1994, however, magistrates have investigated many allegations against Mr Berlusconi, including money-laundering, association with the Mafia, tax evasion, complicity in murder and bribery of politicians, judges and the finance ministry's police, the Guardia di Finanza. Mr Berlusconi, who strongly denies all the allegations, maintains that left-wing magistrates dominate the judiciary, and that the *mani pulite* investigations were politically motivated. Not surprisingly, his closest associates echo these assertions. "Mr Berlusconi has been persecuted since 1993. There is something rotten in the judicial system," says Fedele Confalonieri, an old friend and chairman of Mediaset, Fininvest's television group.

A senior British judge, Lord Justice Simon Brown, took a rather different view in 1996. The case involved an unsuccessful attempt by Mr Berlusconi to stop Italian magistrates getting their hands on some documents seized by the Serious Fraud Office in Britain. The magistrates needed these documents as evidence in a case of illegal party financing, whereas Mr Berlusconi claimed the alleged offence was political. It was a misuse of language, Lord Justice Brown said,

> to describe the magistrates' campaign as being for "political ends", or their approach to Mr Berlusconi as one of political persecution...the magistracy are demonstrating...an even-handedness in dealing equally with the politicians of all political parties. It is, indeed, somewhat ironical that the applicants here are seeking to be regarded as political offenders in respect of offences committed in part whilst Mr Berlusconi himself was actually in office...I just cannot see corrupt political contributors...as "political prisoners".

But Mr Berlusconi has a second line of defence. "Italy is not a normal country. Even an anomaly like Mr Berlusconi must be understood in the context of the country. He has done nothing worse than any businessman in Italy," pleads Mr Confalonieri.

Indeed, many Italians, by no means all of them on the right, echo this defence. Mr Berlusconi, they say, did only what all businessmen had to do to get ahead: pay off anybody, politicians and judges included, who was in a position to help. Mr Berlusconi's fault, they say, is simply that he was cleverer, and became richer, than his rivals. Besides, they add, what were the magistrates themselves up to, before the *mani pulite* campaign, when they were notably inactive in pursuing bigwigs?

Others disagree. “He went beyond the acceptable way of doing business in Italy,” comments a top Italian banker.

Wheels of justice

Three things are important if the full background to Mr Berlusconi’s legal entanglements is to be understood. First, once an allegation of a crime is made in Italy, magistrates have a legal duty to investigate. They can investigate the allegation for a maximum of two years without bringing charges. Second, once charges are brought, the justice system moves slowly: a trial can last for years, as can the appeal process. Third, in Italy, the accused are not considered guilty before definitive conviction in the final appeals court.

The charge sheet 1

Berlusconi’s Italian trials

Case	Date	Charge	Result	Sentence	First appeal	Final appeal
All Iberian	1996–99	Illegal financing of political party	Guilty	28 mths jail	Statute of limitations*	Same as first
Fininvest and others	1996–2000	Four counts of corruption; bribing financial police	Guilty	33 mths jail	Statute of limitations on three counts*. Acquitted on one count	In process
Medusa	1997–2000	False accounting	Guilty	16 mths jail	Acquitted	Decided but not yet made public
Villa Macherio	1998–99	Tax fraud	Statute of limitations*		Covered by amnesty	
Fininvest holding company	1998†	False accounting	In process			
Mondadori	2000‡	Corruption; bribing a judge	Case thrown out§			
Purchase of footballer		2001	False accounting			
SME	2000	Corruption; bribing judges	In process			
Fininvest Group	**	False accounting				
Telecinco *(in Spain)*		Tax fraud, breach of antitrust laws	Inquiry under way			

*Under the Italian penal code, the statute of limitations extinguishes the crime

†Trial restarted for the third time on March 27th 2001

‡Preliminary hearing

§Prosecutors have reapplied for charges to be brought. Appeal hearing in progress

**Prosecutors have applied for a preliminary hearing for charges to be brought

Source: *The Economist*

Mr Berlusconi has had no definitive convictions so far, but only three of nine criminal proceedings against him have reached the final appeals court (click to see the charge sheet). In the one case where the result is known, concerning illegal political donations, this court did not find him innocent. It upheld the verdict of the first appeals court which, because of the lapse of time since the offence, had applied the statute of limitations. Under the Italian penal code, this extinguishes the crime.

Mr Berlusconi’s legal problems all stem from his business career, which started in the 1960s. When he entered politics, he gave up the directorships of all his Fininvest companies, except AC Milan, a football club. However, he remains the controlling shareholder, and one or both of his grown-up children sit on the board of each of the main companies in the empire.

The structure of that empire is not straightforward even now, and has been far more convoluted in the past. Twenty-two holding companies, each of them beneficially owned by the Berlusconi family, control around 96% of the main private holding company, Fininvest.

Fininvest’s biggest asset by far is a controlling stake, worth 13.1 trillion lire ($6.0 billion), in Mediaset. Terrestrial television in Italy is dominated by two groups: Mediaset, and the state-owned RAI. Between them, Mr Berlusconi’s three TV networks (Canale 5, Italia 1 and Retequattro) have a 43% share of the national audience and over 60% of total TV advertising sales.

Television is only one part of Mr Berlusconi’s media empire. He has a controlling stake in another quoted company, Mondadori, which is Italy’s largest publishing group. Mondadori’s books division has almost 30% of the domestic market; its magazine division, with around 50 titles, 38%. The Berlusconi family also owns one of Italy’s leading national newspapers, *il Giornale*.

Fininvest also has a 36% stake in Mediolanum, a fast-growing financial-services group that Ennio Doris founded in 1982 with Mr Berlusconi’s financial backing. Mediolanum was floated on the stockmarket in 1996. And Fininvest has a clutch of loss-making businesses (see table below), such as its Internet portal,

Jumpy, launched just as the dotcom party was finishing, and Pagine Utili, a struggling telephone-directories firm.

Empire state 2

Fininvest's holdings

Company	Business	Fininvest share, %	Fininvest's share of market capitalisation lire trn‡	Revenues lire bn§	Pre-tax profits lire bn§
Mediaset*	Television	48.3	13.1	4,576.6	1,254.5
Mediolanum*	Financial services	36.2	6.7	3,630.5	307.9
Mondadori*	Publishing	50.3†	2.7	2,870.8	260.1
AC Milan	Football	99.9	–	237.7	-38.8
Medusa	Film	100.0	–	220.7	3.3
Blockbuster Italia	Video rentals	51.0	–	156.0	-4.9
Pagine Italia	Telephone directories	100.0	–	146.9	-131.1
Edilnord	Property	63.6	–	114.5	-28.5
Newmedia	Internet	100.0	–	0.9	-4.2

*Quoted company †Of ordinary shares ‡April 24th 2001
§Year to end 2000 for quoted companies; year to end 1999 for private companies

Source: Company reports

The money trail

Mr Berlusconi cut his business teeth on property development in and around Milan. In the late 1960s, he had the idea of developing Milano 2, a garden city of around 3,500 flats. It was built on the eastern outskirts of Milan beneath the flight path of aircraft taking off from nearby Linate airport. The appeal of the development was enhanced after the aircraft were mysteriously diverted over other residential areas.

This was not the only mystery. Companies in Switzerland, where beneficial ownership is impenetrable, injected 4.1 billion lire (33.5 billion lire in today's money) in equity into the Italian companies responsible for Milano 2. So, on paper, this project belonged not to Mr Berlusconi, but to anonymous third parties.

Officials at the Bank of Italy suspected that Mr Berlusconi was behind the Swiss companies. At the time, holding capital abroad without telling the authorities was a criminal offence. A team from the Guardia di Finanza, led by Massimo Berruti, investigated in 1979, but concluded, despite evidence that Mr Berlusconi had personally guaranteed bank loans to the Italian companies, that he was not the beneficial owner of the Swiss companies. Mr Berruti's boss signed the official report. Like Mr Berlusconi, he belonged to the infamous P2 masonic lodge. Immediately after his investigation, Mr Berruti left the Guardia di Finanza and worked as a lawyer for Mr Berlusconi. He is now a Forza Italia member of parliament.

Milano 2 gave birth to Mr Berlusconi's television empire. In 1978, he launched a local cable-television station for Milano 2, called Telemilano. This scheme became far grander. Mr Berlusconi's ambition was to challenge RAI's monopoly on national television advertising, for which there was huge pent-up demand. Telemilano became Canale 5 in 1980.

There was one major snag: only RAI was permitted by law to broadcast nationally. Although private commercial television was unregulated in most respects, a court ruling in 1980 allowed private television stations to broadcast only on a local basis.

But Mr Berlusconi soon found a way round this ruling. He bought programmes, especially American films and soaps, and offered them at very low prices to small, regional television stations. Mr Berlusconi collected the revenue from pre-recorded advertising slots that he inserted. Each station in the Canale 5 circuit agreed to broadcast the same programmes at the same time. In this way, he secured his national audience.

How did Mr Berlusconi finance his budding television empire? Part of the answer is with bank debt. He had a large helping hand from public-sector banks, which provided bigger loans than Fininvest's

creditworthiness seemed to merit. But the rest of the answer is not clear at all. In 1978, at the birth of his television group, Mr Berlusconi set up the 22 holding companies that control Fininvest. From 1978 to 1985, 93.9 billion lire (387 billion lire in today's money) flowed into the 22 companies, ostensibly from Mr Berlusconi.

In 1997, a financier with links to the Mafia alleged to magistrates in Sicily that Mr Berlusconi had used 20 billion lire of Mafia money to build up his television interests. The magistrates asked the Bank of Italy to help the anti-Mafia division investigate. Two officials spent 18 months combing the shareholder, banking and accounting records of the 22 companies. *The Economist* has a copy of their reports, which run to over 700 pages. The two main findings are startling.

The first is Mr Berlusconi's lack of openness with the two trust companies that he instructed to be the registered holder of his shares in the 22 companies. The trust companies were subsidiaries of Banca Nazionale del Lavoro (BNL), a large bank. Mr Berlusconi put money into the holding companies through two little-known Italian banks, rather than through BNL itself. Thus, BNL's trust companies had no clear picture of the ultimate source of these funds. In 1994, BNL's managers were so concerned about this that they carried out two inspections of BNL's relations with the 22 companies.

These inspections revealed other anomalies, such as share sales that were registered solely on Mr Berlusconi's word, and with no documentary evidence. For instance, when he sold shares in one of the holding companies to a Fininvest subsidiary for 165 billion lire, the funds bypassed the trust companies altogether. So they had no idea how, or even whether, the buyer had paid for the shares.

The second finding is that the ultimate source of the money put into the 22 companies cannot be traced. There were three reasons for this. First, 29.7 billion lire had been paid in cash, or cash equivalents. Second, the investigators had found no extant supporting documents in the records of the trust companies, banks or holding companies for 20.6 billion lire. Third, Mr Berlusconi had been adept at sending funds round in circles.

Why did Mr Berlusconi want to do this? The investigators were baffled. One company, Palina, ostensibly a third party, had sent 27.7 billion lire to the trust companies, which had then transferred this sum to the holding companies. From there, the funds went to Fininvest, and then, through a Fininvest subsidiary, back to Palina. All these transactions took place on the same day and at the same bank. The investigators found that hidden behind Palina was Mr Berlusconi. He had used a 75-year-old stroke-victim to front for him. Soon after the transactions took place, Palina was liquidated. Its books had been kept blank.

So the true source of the 93.9 billion lire that flowed into the 22 companies in 1978-85 remains a mystery that only Mr Berlusconi can solve. We have sent him questions about this, in writing, but he has declined to answer. A close reading of the reports suggests that the possibility of money-laundering in the 22 companies cannot be ruled out. Banca Rasini, one of the little-known banks used by Mr Berlusconi and once his father's employer, cropped up in trials of several money-launderers in the 1980s. But the anti-Mafia investigators found no evidence to support the allegation that had triggered their work. They clearly hoped to produce a second report, but the time limit for the investigation had by then expired.

A friend in need

After he bought his two largest private competitors, Italia 1, in 1983, and Retequattro, in 1984, Mr Berlusconi had secured a virtual monopoly in private television. To skirt round the law and broadcast nationwide, he needed help from political friends. None helped more than Bettino Craxi, who became leader of the Socialist Party in 1976 and prime minister in 1983. Mr Berlusconi, through his two main networks, had a powerful political weapon to offer.

In October 1984, officials in several Italian cities shut down his television stations for broadcasting illegally. This spelled potential disaster for the heavily indebted Fininvest group. Within days, Craxi, who died in Tunisia last year after being sentenced *in absentia* to prison for corruption, signed a decree that allowed Mr Berlusconi's stations to stay on air. After some parliamentary tussles, this decree became law.

Craxi's decree did nothing to prevent concentration of ownership. But neither did the Mammi law (named after Oscar Mammi, the telecoms minister), passed in 1990. Tailor-made to suit Mr Berlusconi with his three national networks, it said that no single group could own more than three out of the 12 networks that would be licensed. The coalition government of the day, which depended heavily on Craxi's Socialist

Party, pushed through this controversial measure despite the resignation of five ministers in protest. In effect, this law entrenched the duopoly between Mediaset and RAI. In 1991 and 1992, Mr Berlusconi paid a total of 23 billion lire into Craxi's offshore bank accounts from a clandestine part of his Fininvest empire, known as All Iberian.

Following leads from their investigation of Craxi's bank accounts, prosecutors discovered a secret and substantial network of Fininvest companies, incorporated in such jurisdictions as the British Virgin Islands and the Channel Islands. These companies were not disclosed as subsidiaries in Fininvest's accounts. According to prosecutors, in 1993 Mr Berlusconi signed a letter to his auditors falsely stating that these companies were not part of the Fininvest group.

The prosecutors claim to have found a wide-ranging international fraud, perpetrated under the direction of Mr Berlusconi, to siphon off huge amounts from Fininvest into the secret offshore companies. According to them, Fininvest used various fraudulent financial techniques. The offshore companies, the prosecutors claim, used these funds for all sorts of illegal activities, such as the offshore companies purchasing:

> through a third party, quoted shares in companies in the Fininvest group, the apparent intention being to inflate the price of the shares. That this operation was a sham was clear from the fact that the shares, which were bearer shares, remained at all times in the possession of the same fiduciary.

A genuine buyer of bearer shares in a quoted company would hardly have left them in the safe keeping of the same person used by the seller.

Offshore interests

Another leg of the prosecutors' case is that the offshore companies were used to warehouse secret stakes in television companies in Italy and Spain. The prosecutors say they have strong documentary evidence of this. The Mammi law required Mr Berlusconi to sell 90% of his interest in Telepiu, a pay-TV network that he set up in 1990. However, according to the prosecutors, Mr Berlusconi kept control of this stake until 1994 through his offshore companies. He arranged contracts with associates who agreed to act as fronts for him. Under these contracts, while legal ownership of the shares passed to the investors, beneficial ownership remained with Mr Berlusconi's offshore companies.

The magistrates also uncovered a similar alleged warehousing operation for a 52% stake in Telecinco, a Spanish television station. At the time, Spanish antitrust legislation did not allow anyone to own more than 25% of such companies. Baltasar Garzon, an anti-corruption magistrate in Spain, wants Mr Berlusconi's immunity as a member of the European Parliament lifted. He is likely to have to wait. For eight months, Spain's foreign and justice ministries have been locked in a strange wrangle about which is the competent authority to submit a request to the European Parliament.

Mr Berlusconi is currently on trial for falsifying the accounts of the Fininvest holding company. The effect of the alleged falsification of the accounts was to hide all the alleged illegalities. False accounting is a serious offence in Italy, punishable by up to five years in jail. Magistrates have recently applied for a case to be brought on equally serious charges of false accounting relating to the group accounts of Fininvest.

However, Mr Berlusconi may be planning an escape. On March 17th he told a meeting of Italian businessmen that, if elected, his government would decriminalise most cases of false accounting. So the magistrates' work may have been in vain. Yet although they have been unable to trace the ultimate destination of the tens of billions of lire paid out by various parts of Mr Berlusconi's secret offshore empire, they have discovered where some payments went.

Mr Berlusconi gained control of Mondadori, the publishing group, in 1991 after a bitter battle with Carlo De Benedetti, a wealthy Italian businessman who was himself briefly imprisoned in the *mani pulite* period. Mr Berlusconi is alleged to have bribed an appeal-court judge, Vittorio Metta, with 400m lire to rule in his favour in a case that decided the battle with Mr De Benedetti.

When magistrates started investigating the case, they discovered that Mr Metta had paid 400m lire in cash in 1992 towards the cost of a flat. In February 1991, the month after Mr Metta's ruling, one of Fininvest's secret offshore companies paid 3 billion lire into a Swiss bank account of Mr Berlusconi's close associate and lawyer, Cesare Previti, who was defence minister in his government in 1994. From Mr

Previti's account, magistrates traced a payment of 425m lire to a Swiss bank account of another lawyer, Attilio Pacifico, who withdrew this amount in cash in October 1991. Mr Pacifico allegedly handed over the bribe to Mr Metta.

Although the magistrates found no direct proof of the payment in cash to Mr Metta, they believed they had a strong case based on indirect proof. Scrutiny of Mr Metta's bank accounts revealed no cash withdrawals amounting to 400m lire in the relevant period. Neither did investigation of the Italian and Swiss bank accounts of a retired Italian judge who, according to Mr Metta, had given him the 400m lire in wodges of cash—though the accounts did contain several million dollars.

So the magistrates believed they had established that Mr Metta had received 400m lire in cash from the money that Mr Berlusconi paid to Mr Previti in February 1991. Last June, a judge at a preliminary hearing took a different view. He believed Mr Metta and ruled, therefore, that Mr Berlusconi and the other defendants, who included Mr Previti and Mr Metta, had no case to answer. The magistrates have appealed.

Dealings with judges

Mr Berlusconi is also on trial for alleged bribery of judges. His co-defendants, who all deny the charges, include Mr Previti and Mr Pacifico, and, again, the case involves Mr De Benedetti as the offended party. In 1985, Mr De Benedetti signed a contract to buy SME, a food and catering conglomerate, from IRI, a large state-owned group. Mr Berlusconi and another businessman formed a company to mount a higher bid for SME. After a court ruling in 1986 that his contract was not valid, Mr De Benedetti's deal with IRI fell through. He then took the case to the highest appeals court, where he also lost.

One charge against Mr Berlusconi, which he denies, is that he induced judges to find in his favour by promising them money. Whether this is true or not, there is a clear trail of money from Mr Berlusconi to Renato Squillante, a judge, via Mr Previti. *The Economist* has documents that show a transfer, on March 6th 1991, of $434,404 from one of Mr Berlusconi's Swiss bank accounts to one of Mr Previti's, and on March 7th, a transfer of the same amount from Mr Previti's account to the Swiss bank account of Rowena Finance, a Panamanian company. Court evidence shows that Rowena Finance's account is Mr Squillante's. Mr Berlusconi had wanted to appoint his chum, Mr Previti, as justice minister in 1994, but the president of Italy refused to approve this.

Mr Berlusconi has been absent from the 26 hearings scheduled to date in this trial—some recently postponed, as his lawyers are standing in the election. He has applied for the judges to be replaced, as he claims they are prejudiced.

If he is eventually found guilty of the crime in the final appeals court, he could receive a prison sentence; the statute of limitations will not kick in until 2008. Unlike the crime of false accounting, it will be very difficult for his government, if he wins the election, to decriminalise the offence of bribing judges. This trial could also be unique in Italian judicial history. No serving prime minister of Italy since the war has yet been a defendant in a criminal trial.

Cosy with Cosa Nostra?

Mr Berlusconi's problems with the magistracy have not been confined to Milan. In Sicily, Mafia *pentiti* (supergrasses who have "repented"), especially Salvatore Cancemi, whose evidence has helped prosecutors secure several convictions against Mafia bosses, have made very grave allegations against Mr Berlusconi and his close friend, Marcello Dell'Utri. Mr Cancemi alleged in 1996 that both were in direct contact with the Mafia boss who ordered the bombing which killed an anti-Mafia magistrate, Paolo Borsellino, in 1992.

After a two-year investigation, magistrates applied last year for the inquiry to be closed without charges. They did not find evidence to corroborate Mr Cancemi's allegations. Similarly, a two-year investigation, also launched on evidence from Mr Cancemi, into Mr Berlusconi's alleged association with the Mafia was closed in 1996.

A parallel investigation resulted in charges against Mr Dell'Utri of aiding and abetting the Mafia, which he denies. With the exception of Mr Berlusconi, nearly all the prosecution witnesses in the trial, which

started in 1997, have been heard. According to Ennio Tinaglia, the lawyer for the province of Palermo, a civil party in the case, the prosecution has “presented strong evidence of Mr Dell’Utri’s very close links with the Mafia.” Mere mention of the Mafia makes Fininvest’s managers twitch. “Mafia is second only to paedophilia as a crime. It is a terrible, shameful thing,” says Mr Confalonieri, one of Mr Dell’Utri’s former colleagues.

So who is Mr Dell’Utri? Apart from a short spell in the late 1970s, Mr Dell’Utri, a Sicilian, worked with Mr Berlusconi in Fininvest from 1974 to 1994. As chief executive of Publitalia, Mediaset’s advertising wing, he was responsible for the cash generator of the Fininvest group. Mr Dell’Utri, a member of the Italian parliament, was a co-founder of Forza Italia, and acted as Mr Berlusconi’s campaign manager in the 1994 election.

Magistrates have also applied for Mr Dell’Utri to be brought to trial on charges of conspiracy to slander their colleagues. And he is currently under investigation for allegedly attempting to bribe a prosecution witness at his trial. A court case in 1996 revealed that Mr Dell’Utri received *donazioni* (gifts), often in cash, of 4 billion lire from Mr Berlusconi between 1989 and 1993.

While Mr Berlusconi is not obliged to testify in his own trials, even as prime minister, he cannot escape giving evidence in Mr Dell’Utri’s. Prosecutors will probe him about his long-standing friendship with Mr Dell’Utri. And he will have to answer other questions that he has hitherto avoided. These include how and why he employed Vittorio Mangano, a convicted *mafioso* from a powerful clan in Palermo, on his country estate near Milan for two years in the 1970s.

High on the prosecutors’ list will be questions on the anti-Mafia investigators’ reports about the 22 holding companies. Not least, they will ask him where the 22 companies got their funds. There will also be questions about a Sicilian television company that he owned with a Mafia-related figure.

Despite his claims that he is the shining archetype of a self-made man, Mr Berlusconi has needed a lot of help from insalubrious quarters. Though he says he wants to replace the old corrupt system, his own business empire is largely a product of it. His election as prime minister would similarly perpetuate, not change, Italy’s bad old ways.

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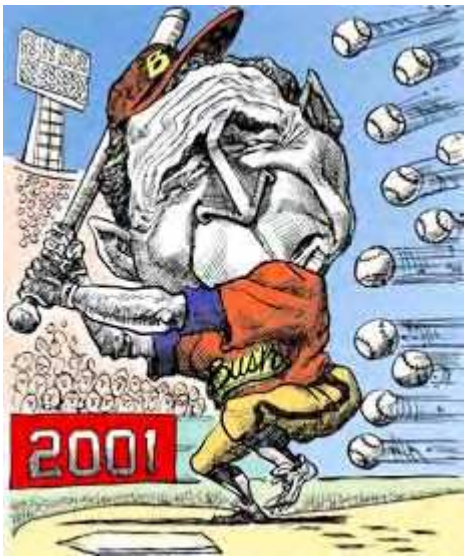
On target, so far

Apr 26th 2001 | WASHINGTON, DC
From The Economist print edition

George Bush is doing better than some Americans—and most foreigners—give him credit for

Get article background



"THE first 100 days are the most precious time in the life of a president to define who he is and what he is seeking to achieve." If David Gergen is right (and he served in the Nixon, Ford, Reagan and Clinton White Houses) then George Bush has a rough time ahead. Seen through many eyes, particularly foreign ones, he is the most divisive president since Ronald Reagan.

In the United States, Mr Bush gets the standard respect accorded new presidents. His opinion-poll ratings—63% in a recent *Washington Post*-ABC poll—lie between those of his father and Bill Clinton (whose first 100 days were widely admitted to have been a shambles). But to the European public he is a threat. "Bully Bush" was the headline from one of Germany's more sober newspapers after Mr Bush said that America was pulling out of the Kyoto accord on climate change. According to Gallup, only one in four Britons approve of his performance. Nobody dares ask the Chinese or the French.

To American conservatives, this may be heartening. If Europeans dislike Mr Bush so much, he must be doing something right. But the European view is worth taking seriously, partly because the president is the leader of the Atlantic alliance, and partly because European views reflect in exaggerated form the criticisms made of Mr Bush at home.

All of Mr Bush's critics have tended to focus on questions of ideology—particularly his conservatism. From a practical viewpoint, though, the issue of technical competence— getting his administration up and running—has been more important so far.

Considering that his immediate predecessors had increasingly difficult transitions and that his own transition period was cut in half by the Florida recount, one might have expected a disastrous start. Instead, Mr Bush ran one of the most efficient transitions in recent history. The early days of the Clinton administration were spoiled by the settling of campaign scores that comes from not having a powerful organiser about early. Even before he won Florida, Mr Bush had appointed a chief-of-staff, Andy Card, with Washington experience and clout in the White House. He then got all his cabinet nominees into place within a month—a notable achievement.

Since then, the circumstances of his election have since taken a toll. By this stage, Mr Reagan had nominated 112 advisers and had 72 of them confirmed by the Senate. The figures for Mr Clinton were 92 and 42. The numbers for Mr Bush? Sixty and 29.

In nine of the 14 government departments, the secretary is still the only senior policymaker confirmed. Mr Bush has only a handful of his national security advisers in place. Three of the top appointees are ready at the state department, two at defence and at education, poor Rod Paige, the secretary, is the sole appointee in an area which is one of Mr Bush's two top policy priorities.

In all, Mr Bush has 488 appointments requiring Senate confirmation, so the 29 he has got through is 6% of the total. Judging any organisation where 94% of the staff are not actually working yet is not easy. The early days tell you more about strategy, the general tone and the apparent intentions than anything more concrete. If the devil is in the details, we have hardly seen him yet.

That said, the notion that Mr Bush is "too conservative" has taken root deeply and quickly enough to be worth worrying about. The president is certainly conservative. We have his word for it—over and over

during the campaign. He opposes gun control and abortion. His biggest single proposal—for a $1.6 trillion across-the-board tax cut—is in the line with Reaganite traditions. He has proposed reductions in government spending or restraints in spending growth that Mr Reagan would have been proud of.

Less noticed, Mr Bush is preparing to roll back what conservatives see as decades of "liberal judicial activism" (that is, making law as opposed to interpreting it). He appointed an extremely conservative senator, John Ashcroft, as his attorney-general. He is also filling the bit of the administration that deals with the judiciary, the White House Counsel's office, with ideological soulmates.

Centurions
Achievements in first 100 days

	Carter (1977)	Reagan (1981)	Bush (1989)	Clinton (1993)	Bush (2001)†
Countries visited	0	1	4	1	2
Heads of state met	11	4	9	23	20
State dinners	5	3	3	0	0
US states visited	7	2	15	15	26
Important laws passed	0	0	0	1	0
Executive orders	16	18	11	13	11
Cabinet meetings	17	12	3	4	3
Appointments: nominated	*na*	112*	96	92*	60*
Appointments: confirmed	*na*	72*	49	42*	29*
Important speeches	4	5	2	3	2
Formal news conferences	6	2	11	4	2

*As of the 91st day †As of April 23rd
Sources: White House Office for Strategic Initiatives; Brookings Institution

The battle over judicial conservatism may not erupt in the usual way, over a controversial nomination to the Supreme Court (that would draw too much fire from Senate Democrats). But Mr Bush is about to nominate a phalanx of 40 or so jurists to vacancies in lower federal courts as his first salvo in what will be a long war to reclaim the courts for judicial conservatism. Right-wing lawyers are cock-a-hoop.

By leading with his right, Mr Bush has achieved one important political goal: he has nailed down his conservative base of support. The right in America has always been a semi-autonomous movement, just as willing to make life hell for a Republican president (Mr Bush's father) as to support him. Marshall Wittman of the (conservative) Hudson Institute argues that the right now feels as if it has been brought inside the White House. Conservatives meet every Wednesday at the Americans for Tax Reform offices to plot how to help Mr Bush. Karl Rove, Mr Bush's senior political adviser, assiduously cultivates this group.

It is an open question how long the love-fest will last. Possibly, the right will go along with Mr Bush only so long as he gives them what they want. But there are signs that, having established his credentials, Mr Bush will be able to move back towards the centre without incurring their wrath, negotiating, say, a lower tax cut with the Congress, and signing an education bill that junks vouchers (a conservative cause) and allows for a big expansion in the role of the Department of Education, which conservatives once wanted to scrap. In 100 days, the right has swallowed two "very sorrys" to the Chinese and several greenish environmental policies (yes, there have been some) with barely a peep.

Right man, right job

So Mr Bush is a conservative and has conservative friends. But is he too conservative? Obviously, that depends on how much is too much. Part of the European distaste is connected with his stance on gun control, abortion and, in particular, his unwavering support for the death penalty. But this criticism says more about differences between Europe and America than it does about Mr Bush. Many Democrats also oppose gun control and support the death penalty.

But the other European gripe, Mr Bush's environmental policy, is also the main reason why many Americans think he is governing more conservatively than he ran. He has been widely derided for postponing a reduction in the amount of arsenic permitted in drinking water.

Still, the notion that Mr Bush is an environmental health warning is just plain wrong. His announcement that he was pulling out of the Kyoto accords did not end America's involvement in that treaty. It has

been dead ever since the Senate voted 95-0 against the idea in 1997. Mr Bush has upheld regulations requiring diesel fuel to be cleaned of most of its pollutants. He upheld rules requiring improvements in the energy efficiency of domestic appliances (air conditioners being a small exception). Excluding his preference for some oil drilling in a wildlife preserve in Alaska, the main difference between Mr Bush and Mr Clinton on the environment is that Mr Clinton pretended he was green and Mr Bush does not.

A similar view might be taken on his foreign policy. There has been some undiplomatic abruptness (Kyoto, hurling out dozens of Russians spies, sending Don Rumsfeld, the defence secretary, to be rude about European plans for a rapid-reaction force). But on the big events, the moderates have been in charge—witness the apologies to China over the spy plane, the decision not to sell an Aegis anti-missile system to Taiwan, and the decision announced at the time of the Quebec summit to make getting trade promotion a priority this year. This is orthodox American internationalism of the old school.

When it comes to his two main domestic-policy proposals, Bushism is within the political mainstream. Last year, the candidates feuded over whether tax cuts should be $500 billion or $1.3 trillion, an insuperable gap. Under Mr Bush, Congress and the White House are negotiating on whether the tax cut should be $1.6 trillion or $1.3 trillion. That shift is Mr Bush's biggest legislative achievement so far.

On education, he has plunged into the mainstream. Stripped of vouchers (as seems likely), his education plan will increase federal spending on education in exchange for lots more accountability in schools. This is essentially the Democratic party's position.

The more intriguing question is whether Mr Bush is too conservative for American voters, as judged by the election. The tied result, combined with Mr Gore's taking a larger share of the popular vote, led many to expect Mr Bush would downplay his conservatism in order to govern from the centre.

The trouble with this expectation is that it is inconsistent with the electoral system. In a presidential election, the winner takes all. It is not designed to embody the full range of opinion in the country. The rest of the system of checks and balances is supposed to do that. Whether Mr Bush has been wise to start by governing as a conservative is a question that the rest of his term will answer. But it can hardly be said that he has offended against the spirit, and still less the letter, of the result.

That said, his decision has entailed an opportunity cost. The election revealed a split down the electorate's middle. It is unclear whether Mr Bush could have begun to heal a division like this in 100 days but, at any rate, he has not done it. While 94% of Republicans approve of his performance, only 39% of Democrats do so (they are almost British about it). This is a wider partisan difference than even Mr Clinton "enjoyed".

Mr Bush has also failed to change the public's mind about which policies really matter. Twice as many people still think it is more important to provide needed government services than to hold down the size of government (admittedly, a false choice). Mr Bush's two main policies—tax cuts and education reform—still rank lower on the public scale of importance than holding down health-care costs, providing prescription drugs through Medicare and reforming Social Security. In short, he has not altered the underlying political landscape.

And as a result, he has also failed to deliver on his boast that he would "change the tone in Washington". The two parties still itch to tear one another apart. He pushed his tax-cut proposal through the House of Representatives on a strict party-line vote. At most, he has changed the presidential style in Washington, eschewing Mr Clinton's attention-grabbing antics (relief all round) but also mostly eschewing the bully pulpit (a possible mistake in the long run).

In general, though, Mr Bush's first 100 days look better than many imagined in December. Norman Ornstein of the American Enterprise Institute argues that any president would be satisfied if, within two years, he had achieved the sort of things Mr Bush may well get this year alone: an education package that commands bipartisan support (still likely); a large tax cut (still possible); plus a couple of bills left over from the previous administration, such as bankruptcy reform and a patients' bill of rights.

Indeed, the real doubt about Mr Bush is that he may be peaking too early. The politics of the issues on the horizon are far harder: national missile defence, reforming Social Security, reforming Medicare. Those are for the next 1,000 days.

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Politics in Washington state

Something about Maria

Apr 26th 2001 | SEATTLE
From The Economist print edition

SOME 10,000 former dotcom workers are looking for jobs in Seattle. Most of them are scrambling for work in the remaining "new economy" companies or slinking back to Microsoft. Then there is Maria Cantwell—Senator Maria Cantwell, that is.

In November Ms Cantwell, a Democrat, narrowly won one of Washington state's two Senate seats, defeating Slade Gorton, the Republican incumbent, by a mere 2,229 votes. Her victory, confirmed after lengthy recounts, left the Senate split down the middle, with Democrats and Republicans each holding 50 seats.

Ms Cantwell's victory came chiefly from her ability to outspend Mr Gorton, himself a prolific fund-raiser, by some $5.2m. She financed the $11.5m campaign almost entirely herself, with shares collected as a manager at RealNetworks, a Seattle company whose software allows people to play music and video over the Internet. Ms Cantwell had joined RealNetworks in 1994, after a single term in the House of Representatives, and by early 2000 she was worth about $50m.

In her campaign, Ms Cantwell vowed to work for campaign-finance reform. Mr Gorton was made to look like a money-grubber beholden to any political action committee (PAC) that would give him money. Not to mention, at the age of 72, a little out of touch with the digital era when compared with Ms Cantwell, who is 42. Mr Gorton represented some of the oldest parts of the old economy, the interests that chop down trees and put big dams in rivers. Ms Cantwell represented everything newer and greener.

Unfortunately, RealNetworks' share price, as high as $93 early last year, is now around $8.60. This has put Ms Cantwell in a financial bind. In addition to giving outright about $6m to her campaign, she borrowed $3.2m, using shares as collateral. When the loan came due in March, she was unable to repay it all; she still owes about $1.4m.

Worse, her finances have got her into hot water. In mid-April, the National Legal and Policy Centre, a watchdog based in Washington, DC, filed a complaint against Ms Cantwell, alleging that she secured lines of credit with insufficient collateral and at low interest rates unavailable to normal folk. The NLPC also claims that Ms Cantwell did not disclose the loans until January—months after federal rules stipulate—and suggests that she hid the information about the loan to avoid a bad press. "She ran on campaign-finance reform, but didn't abide by the rules in place then," says Doug René of the NLPC.

Ms Cantwell refuses to comment on this. On April 25th another new senator, Hillary Clinton, organised a fund-raising event for her beleaguered colleague at her new home in Washington, DC. Ms Cantwell still refuses to take money from PACs, and worked hard on behalf of John McCain's campaign-finance reform bill. But many of the same lobbyists who put money into PACs are now writing $1,000 cheques direct to the Cantwell campaign account.

It is hard not to feel sorry for Ms Cantwell. An intelligent, hard-working politician, she was something of a star in the Washington state legislature. True to form, she has won seats on important judicial and energy committees in the Senate.

Yet to imply that her woes are the product of bad timing and poor luck misses the mark. Indeed, as David Olson, a political-science professor at the University of Washington, points out, by most measures she has been exceedingly lucky. By joining RealNetworks (rather than, say, Boeing), she won the lottery. Her fortune peaked just when the Senate race was heating up. Without her own cash, she would surely have been beaten by Mr Gorton. Nowadays, she would probably not be running at all.

That luck may well hold. Mr Gorton, a relative moderate, was the exception rather than the rule in Washington state's Republican Party. Ever since 1988, when Pat Robertson won the state's Republican presidential caucus, the local party has been in the thrall of ideological purists. The two most recent

Republican candidates against Gary Locke, the current Democratic governor, could muster barely 40% of the vote. The brightest Republican spark, Rick White, a moderate who defeated Ms Cantwell for her House seat in 1994, was himself ousted in 1998.

Assuming that she can find a way out of her difficulties, Ms Cantwell will have five years to rebuild her reputation. Should self-pity overtake her, she need only look at the employment pages of the Seattle newspapers. A stable job paying $145,100 looks fairly attractive to most dotcomers at the moment—even if it is in Washington, DC.

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The old-girl network

Apr 26th 2001 | WELLESLEY, MASSACHUSETTS
From The Economist print edition

MENTION Massachusetts and higher education in the same breath, and most people—most men, at least—will think of Harvard and MIT. But ask the gals, and they will tell you that Wellesley has been just as much a shaper of modern American society.

This all-female liberal-arts college, set in gorgeous grounds outside the town of the same name, has produced a string of notable firsts: America's first female secretary of state, Madeleine Korbel Albright (Wellesley insists on acknowledging maiden names), the first First Lady elected to the Senate (Hillary Rodham Clinton) and the first female black judge (Jane Bolin). And although Wellesley does not like to boast, which is such a male thing to do, other alumni include television presenters (Diane Sawyer and Cokie Roberts), film directors (Nora Ephron) and even Madame Chiang Kai-shek, wife of the founder of modern Taiwan—which helps explain why a quarter of the college's 2,300 students today are of Asian descent.

Last weekend, Wellesley's women returned in force to celebrate the 125th anniversary of their alma mater. They were greeted like rock stars—a warning to any man thinking that the sting has gone out of feminism. During speeches by Mrs (Rodham) Clinton and Mrs (Korbel) Albright, girls screamed, surged forward to take photographs and cheered their every word, especially suggestions that they had succeeded in spite of their husbands. (Mrs Albright's scuppered her dream of becoming a journalist by refusing to let her join a newspaper that competed with his own: "For 40 years, I have been working out what I should have said to him.")

Certainly Wellesley has plenty to be proud of. Its graduates believe that the college gave them a degree of ambition and confidence that would have been impossible with men around. "The opportunity to have my gender not matter was a huge relief," says Martha McClintock, a professor of biology and psychology famous for discovering that women living together menstruate at the same time. (Her male counterparts had seen the phenomenon in mice, but believed Ms McClintock when she presented data from the women living in her Wellesley dormitory.)

Andrea Dupree, the first astronomer to get an ultraviolet picture of a star using the Hubble telescope, was shocked when a male teacher at graduate school asked her if she would stay in her profession or have children: "No one at Wellesley had ever doubted I was serious." Sandra Lynch, today an appeals-court judge, had never encountered discrimination until she left Wellesley and heard a male law-school professor, triumphant after catching a female student out, remark: "Well, class, now we know why women are not known for their beautiful minds."

All agree, though, that Wellesley's main advantage is its network of lasting friendships. Mrs Clinton chose the college in part because she was told that "wherever you are in the world, a Wellesley woman will help you." She decided to run as senator on the encouragement of a Wellesley suffragette, Ruth Dyk, who told her that the Senate needed more women.

Wellesley feminism has not always been so hardline. Mrs Albright—who tells women to do what she didn't when young, and interrupt speakers in meetings—recalls that, in the late 1950s, the height of ambition instilled by the college was "to stay at home, become fascinating wives and raise smart sons". In her day, clicking sounds in class were not from lap-tops but from knitting-needles, as students made socks for their boyfriends.

Even then, however, Wellesley women did not take many things lying down. According to tradition, a student could test her beau's love by walking him around Lake Waban, the centrepiece of Wellesley's campus, three times. If he did not propose by the third lap, push him in.

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Lexington

Remember Florida, and weep

Apr 26th 2001
From The Economist print edition

HANGING or dimpled? Swinging or pregnant? You may have thought that the United States would be willing to move heaven and earth to make sure that these dreaded words will never be heard again—in elections, at least. The Florida recount not only subjected the country to weeks of tedious acrimony. It soiled the Supreme Court's reputation, put a question-mark next to the name of the new president, and turned the world's most enthusiastic champion of democracy into a laughing-stock.

For a while it looked as if change was inevitable. Dozens of bills were introduced in Congress and hundreds in state assemblies; the Senate held hearings; Jimmy Carter and Gerald Ford decided to set up a blue-ribbon committee; the Commission on Civil Rights pondered; earnest study-groups spouted at universities across the country.

Yet as Katherine Harris, Florida's secretary of state and the woman at the heart of the Florida fiasco, testified on Capitol Hill this week, the momentum for reform is melting like mascara in the rain. Congress's attempt to form a select committee on reform has collapsed in partisan bickering. Mr Ford failed to turn up to the first sparsely attended meeting of his commission. All around the country election officials complain that a sagging economy means that they lack the money to replace punch-card machines with fancy new equipment.

One might have imagined that the one boon of the Florida mess was that it made electoral reform inevitable. Why has the opportunity been squandered? Because both the White House and Congress have failed to put their weight behind reform. In Mr Bush's case, mentioning Florida has the twin effect of reminding voters that his position rests on a disputed election and distracting attention from his own agenda. Even so, the president's cavalier decision to reject the Federal Election Commission's request for extra money was nothing short of disgraceful.

Congress's behaviour is more puzzling. The best that can be said for America's legislators is that they have faced a genuine problem of priorities—and then opted to look at campaign-finance reform rather than voting reform. The worst that can be said is that they are more interested in turf-wars than the state of the country's democracy. The attempt to form a bipartisan committee on voting reform was killed by a petty squabble over which party should hold the majority. (The Republicans wanted a one-seat majority; the Democrats demanded an even split.)

This petty squabble reflects a deeper division over what is wrong with the system. Democrats assume that the real problem is "undervoting": people who fail to get their votes registered either because of problems with the machines or because the system is rigged against them. Republicans assume that the real problem is "overvotes": people who manage to vote despite the fact that they are felons or foreigners, people who vote more than once, people who continue to vote even though they have died, and people who bother to vote only because local political bosses hand out "street money". Democrats argue that the most important thing is to increase turnout. Republicans counter that it is even more important to eliminate fraud.

To be sure, it is not entirely a matter of political will. Two long-term headaches have emerged for electoral reform. The first is the lack of a simple technological fix for America's voting problems. A study by Caltech and MIT produced the surprising conclusion that some new electronic voting systems are more error-prone than old-fashioned paper ballots. The mere fact of introducing a new sort of technology can lead to a short-term increase in error rates, as both voters and election officials try to get used to new gadgets. And the cleverest ideas for fixing the system may have unintended consequences. Some of the new machines eliminate the need for paper records entirely. But then how do you trace errors? Others automatically reject ballots that contain undervotes. But what about people who didn't want to vote for any of the candidates for a particular office?

The second, larger, problem stems from the Supreme Court's decision to end the Florida recount on grounds of "equal protection". No one has quite worked out what this means. Does it apply only to the recounting of contested ballots, or throughout the voting process? Does it mean that states need to design uniform ballots? Or that the whole country needs to introduce a uniform ballot? And what does it mean for the fact that poor people are much more likely to encounter difficulties with registration and faulty equipment?

The Supreme Court was careful to argue that its ruling had no value as a precedent, and states are proceeding with their business in their usual piecemeal way. But whether the court can defend its bizarre ruling in practice is questionable, and pressure groups are rushing to take advantage of the judgment to file a blizzard of voting-practice lawsuits that only confuse things further.

So is Washington right to give up the prospect of rational reform and leave voters to throw themselves on the tender mercies of Saint Chad? Not a bit. The problems of voting reform are not so much fundamental barriers to reform as convenient but flimsy excuses for inaction by Mr Bush and Congress. Yes, there are legal and technical obstacles; but, at the local level, a few states, including Georgia, California and, thank God, Florida, are engaged in serious overhauls of their voting systems (Ms Harris is introducing machines that may not be perfect but are still improvements). Yes, there are party differences; but everybody agrees that something needs to be done to fix the mess exposed in Florida. People can legitimately differ about campaign-finance reform, but nobody can legitimately differ about the case for one-person-one-vote.

Which makes the disdain of Mr Bush and the partisanship on the Hill all the more galling. Washington, prompted by the witterings of the various old worthies, or perhaps by the strafings of John McCain, may yet rise to the task. But the odds are against it for now. Anyone who expects to go to the polls in 2002 and discover a better voting system is liable to be sorely disappointed—and to be in no doubt about whom to blame.

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Fires

The blaze next time

Apr 26th 2001 | SEATTLE
From The Economist print edition

SONNY O'NEAL is a worried man in what sounds like a nice job. He is the supervisor of the Okanogan-Wenatchee National Forest, a vast swathe of trees, mountains and grassland that curves from central Washington state to the Canadian border. This spring, the snow is only half as deep as usual. The spring sun will soon burn it off, leaving the Ponderosa pines and Douglas firs tinder-dry. "It's shaping up to be a pretty bad year for fires," says Mr O'Neal.

Some 40m acres of wildlands are at high risk of fire this summer, an area that encompasses chunks of Oregon, Washington, Wyoming, Idaho, Montana and Utah. Recent rains have helped to moisten the landscape, but forecasters believe that a hot, dry summer lies ahead—like last year's. Then, some of the worst wildfires in decades scorched 7m acres and destroyed hundreds of houses in nine western states. In New Mexico, $1 billion in private property was destroyed last May when "backfires", deliberately set by firefighters to remove dry underbrush, started a blaze that nearly overran the Los Alamos National Laboratory.

Destructive wildfires have become a feature of America's west, and the trend is worsening. Forty years ago, 1,000-acre fires were considered serious. Now, during a fire season such as last summer's, fire crews may battle dozens of 5,000-acre fires and leave the 1,000-acre ones to burn.

Reuters

Help from on high

Moreover, many fires today are of the worst kind—so-called "crown fires", which climb into the tops of trees, catch the wind, and leapfrog rivers, canyons and firefighters in a terrifying wall of flame that can reach 2,000°F. Once a crown fire breaks out, any tree in its path is doomed.

Until a century ago, fires were welcome. They passed through most forests every ten years or so, cleaning up brush and young seedlings while leaving large mature trees untouched. Then came European settlers, bringing with them livestock—which ate the grass that fuelled more frequent fires—and a desire to save potentially lucrative trees from being burned.

After 1910, a severe fire year, the nascent Forest Service tried to stop the burning. But, without fire, forests became overgrown with brush and shoulder-high stands of "dog-hair" trees. This dense thicket dries out easily, bursting into flames at the touch of a lightning bolt or cigarette butt. When it does, the flames leap easily into the tree tops, starting a crown fire.

Forest managers are looking for help on two fronts. One is the weather. Summers have been earlier and hotter in recent years, but there is a chance that summer monsoons will dampen forests, or that lightning will be relatively scarce. On the other front, Congress late last year appropriated $1.8 billion to help firefighting crews. With this largesse, forest agencies are busily adding new equipment to tackle the expected August infernos.

A good thing? Not everyone thinks so. Last year, for instance, firefighting agencies spent $1.6 billion. But not a single big fire was extinguished by their efforts. At best, firemen were able to make big fires change direction, and perhaps save a few houses. Otherwise, the only real salvation was a rain cloud. "We're willing to spend $1m to save a $10,000 barn," says Andy Stahl, director of a green group in Eugene, Oregon. "It's nuts."

Perhaps, but it's also profitable. Throughout the west, what Mr Stahl calls a "fire-industrial complex" looks keenly forward to each summer season. A fire crew of perhaps 300 brings with it a logistical tail of supply aircraft, equipment and food-service vendors. And firefighting is one of the few budget items that

Congress leaves as essentially a blank cheque. A bad fire year is good business for thousands of people.

In wilderness areas, say some environmentalists, fires should be left to burn. In time, most forests will re-adopt their natural fire cycle and be the better for it. In areas where growing numbers of city-dwellers have built rustic cabins—places where firefighting is most frantic and expensive—Mr Stahl suggests a scheme like that covering people who choose to live near flood-prone rivers. Forest-dwellers would be required to join an insurance pool that pays out in cases of fire. If they were burned out two or three times, they would have to move elsewhere or lose that insurance. “Forests in the west burn,” says Mr Stahl. “It’s a fact of living there.”

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And the waters rose, and rose

Apr 26th 2001 | MINNEAPOLIS
From The Economist print edition

SPRING in the mid-west used to be a long-awaited reprieve from winter's harshness. But increasingly April is coming to be the cruellest month for much of the region. For the third time since 1993, record spring floods have submerged big and unhappy stretches of the Great Plains.

AP

Trade up to a gondola

This is the result of a once-rare confluence of forces. Snow fell liberally in the winter, and a warm spring melted it quickly. Rain, which had also poured down throughout the winter, briefly paused but then returned in force this month. All this has turned parts of the Great Plains into a landscape more aptly described as Venetian. In Minnesota, helped by the rainiest April on record, the Mississippi River has reached heights not seen since the 1960s. Now the flooding has moved south into Wisconsin and Iowa.

In most places the defences, reinforced after the floods of 1993 and 1997, have held up fairly well. Where floodwalls and dykes proved inadequate, sandbags and manpower held the line. But one big exception is Davenport, Iowa, which has the dubious distinction of being the largest town on the upper Mississippi without a proper floodwall. The director of the Federal Emergency Management Agency has admonished the town for its omission. Some people in Davenport reply that nobody could have foreseen a third major flood in eight years; but events show they should have.

The cost throughout the mid-west is already stretching into tens of millions of dollars. Until the waters subside, sodden towns cannot gauge just how much damage has been done. As the waters rose, the army's Corps of Engineers closed 400 miles of the Mississippi to all traffic from Minneapolis south to Iowa. Farmers up north lost large amounts of money as the floods halted barges carrying millions of bushels of their corn down to the Gulf of Mexico and foreign markets.

Some businesses are trying to move their goods by road or rail instead of by river. But flooding has made some railway tracks between Minneapolis and Chicago impassable. And transporting goods by road is a lot more expensive than doing it on the river. Many businessmen will have to wait until barges can ply the river again, perhaps some time in May.

Is the weather alone to blame? Other culprits may include farmers who have built more and more drainage ditches which sweep water away from their crops with what now seems unfortunate efficiency. Some people think the Mississippi is too shallow, and want the army's engineers to dredge the silt out of it more often. Others blame urbanisation, because growing cities need more asphalt and other impermeable surfaces which will not absorb water that would once have soaked into the soil. Whatever the causes, floods seem to be getting more frequent. Noah would have felt at home in today's mid-west.

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It was rough

Apr 26th 2001 | JAMESTOWN, VIRGINIA
From The Economist print edition

FOR many Americans, Jamestown is the pretty name of a romantic place where the first settlers from England happily began a new life in a new continent in 1607. Just along the James river from Williamsburg—the Rockefeller-financed re-creation of Virginia's 18th-century capital—Jamestown is often assumed to have been a model of pristine colonial grace. In fact, archaeologists are discovering in its marshy soil new evidence that the first days of colonial life may have been even harsher than they had realised.

The Association for the Preservation of Virginia Antiquities has unearthed 24 graves dating back to the state's origins, the contents of which confirm that disease and privation nearly wiped out the first permanent English settlement in the New World. Landing in May 1607 at the site they later named Jamestown, in honour of their royal benefactor, 105 English men and boys erected a small fort. Within two years the population of James Fort, as it was first called, grew to 215. But it was a perilous life. Sickness, hunger and Indian attacks killed roughly one in four of the little band that created the commercial and military core of a transoceanic empire.

The graves have been uncovered in the preparations for the celebration of the 400th anniversary of the founding of Jamestown. Some of them appear to have been dug in the eight months between September 1609 and May 1610, the period that contemporary accounts call the "starving time", when settlers ate rats, dogs, snakes, horses and cats. Their discovery is the latest development in a continuing reassessment of Virginia's history—and of America's too.

At colonial Williamsburg, historians now reckon that women and slaves played a larger role in 18th-century life than was previously assumed. At Jamestown, continuing research—including the discovery several years ago of the foundation of James Fort—has helped to explode the popular myth that the New World was tamed by Errol Flynn-like swashbucklers.

The contorted skeletal remains recently unearthed suggest that corpses were hurriedly interred in shallow graves. Some still even wore their clothes, a privilege usually reserved for aristocrats and clergymen. Presumably these bodies stayed dressed either because they had to be bundled underground in a hurry or because the survivors, remembering plagues in Europe, believed that contagion could be carried on the garments of the sick.

The association that has organised these grisly discoveries was founded 112 years ago by Virginia's so-called first families to trace and glorify their roles in the state's history. Its diggings have discovered that in fact some of the dead of early Jamestown were carelessly dumped in the ground face down. Christian custom at the time required that a corpse be placed on its back, with its head pointing to the west. On Judgment Day, the rising dead would thus face the sun. Not Jamestown's.

William Kelso, the association's chief archaeologist, admits that some people have long known how tough life was for the first settlers. "But when you see the way these bodies were buried," he says, "you can't help but think about what these people must have gone through in a whole different way." The causes of death will now become clearer. Diseases such as syphilis and gout leave traces in the bones. Through the new art of DNA analysis, scientists may be able to extract from human remains the traces of pathogenic microbes, including the one associated with tuberculosis.

And more will be known about the brief lives before those deaths. Analysis of bones and teeth can reveal the sex and age of the dead, what they ate, the state of their health, perhaps even where they came from. Maybe it will be possible to tell distant relatives in today's England what happened to their westward-bound ancestors.

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A cautious yes to pan-American trade

Apr 26th 2001 | QUEBEC CITY
From The Economist print edition

The Quebec summit highlighted divisions in the United States over trade policy, and doubts in Latin America

Reuters

THE thousands of protesters who took over the old city of Quebec last weekend during the third Summit of the Americas could claim some small victories. They forced minor scheduling changes and a huge expenditure of tear gas, and they dominated the media images of the summit. Even so, the proposed Free-Trade Agreement of the Americas (FTAA), to which they object, took a few more steps forward in Quebec.

All but one among the 34 countries at the summit endorsed their trade ministers' plan to complete the FTAA talks by January 2005, and to get it started by 2006. In an effort to shore up political support for the project, the leaders also agreed that countries in which democracy had broken down would be excluded from future summits—and by implication from the FTAA.

But the summit itself, as well as the protests, provided evidence of the difficulties in the path of the FTAA. For a start, the United States is divided on trade. George Bush, attending his first international gathering as president, seemed to get on well with many of his Latin American counterparts. He expressed warm support for the FTAA, an idea originally dreamed up by his father.

Mr Bush committed himself to obtaining from the United States Congress the fast-track—he calls it "trade-promotion"—authority required to clinch trade deals "by the end of the year". That means trying to strike a difficult compromise: many Democrats want to incorporate labour and environmental norms into trade agreements, while many Republicans (and developing countries) oppose this.

By setting his own deadline, Mr Bush may have given the Democrats a weapon. He seemed to concede even more to them in saying that he would proceed with the FTAA only if it were combined with "a strong commitment to protecting our environment and improving labour standards". Robert Zoellick, his trade representative, said that rather than enforcing such standards through trade sanctions, he was looking at "incentive methods". Mr Bush's statement was greeted with surprised delight by some critics of globalisation, but dismayed free-traders who argue that by increasing prosperity, trade acts as an aid, not an obstacle, to improving working conditions and environmental protection.

Why the rush to get fast-track? Mr Zoellick pointed out that Ronald Reagan lacked such authority when the Uruguay Round of world trade talks was launched in 1986; it was more important, he argued, to have it at the time of any agreement. But Mr Bush may not be around to sign the FTAA in 2005, still less a new global trade deal. That may be why he seems keen to strike bilateral deals: talks on one such with Chile were begun in December by the Clinton administration. Mr Bush said that it was "very possible" that the United States would discuss a bilateral trade agreement with Central America.

The summit also showed that not all the Latin American countries view an FTAA, or closer political ties, with unalloyed enthusiasm. But only President Hugo Chavez of Venezuela is opposed. He also refused to support the summit's "democracy clause", on the ground that "representative democracy has been a trap for Venezuela"; he prefers "participatory democracy".

In a speech in which he showed off his fluency in four languages—while Mr Bush struggled with one—Fernando Henrique Cardoso, Brazil's president, set out his country's position: yes to the FTAA, but only if it includes changes to the United States' anti-dumping rules, a reduction in non-tariff barriers and in farm subsidies. And he was withering about rich countries' efforts to turn concern for labour and the environment into a pretext for protectionism.

Many smaller countries in Latin America and the Caribbean are apprehensive about their ability to compete with the United States. Others worry about financial instability, such as that in Argentina (see article). Vicente Fox, Mexico's president, proposed a European-style "social cohesion fund", to be paid for by a 5% cut in defence spending. But there is no chance of the United States' accepting that. Pierre Pettigrew, Canada's trade minister, acknowledged that the gains from trade may not disperse quickly without a helping hand, but that, he argues, is a matter for social policy in each country, not something to be written into trade agreements—as some protesters want.

The people protest, some of them

Canada had done its best to deflect the protests. The government helped to pay for an alternative "people's summit" involving a variety of pressure-groups. It even helped to organise a peaceful protest march, which attracted some 25,000 people. But its decision to build a five-kilometre (three-mile) chain-link fence sealing off the centre of the old city of Quebec created an unfortunate symbol of exclusion. In the name of "transparency", Canada organised a meeting between trade ministers and "civil society" groups, but promptly ejected journalists from it. Still, the leaders did agree to make public a draft of the FTAA agreement.

Some of the protesters are old-fashioned protectionists, such as the American steel workers who want curbs on imports from Brazil. Others see the FTAA as dreamed up by American multinationals, and worry that it involves a loss of national sovereignty. If other countries see this as "a new form of imperialism, we're not going to be successful," Mr Zoellick conceded.

Several Latin American presidents offered to help Mr Bush by lobbying the United States Congress. But they will also have to convince their own voters that trade is indeed a powerful instrument for economic growth, and that the losers will be helped. To prepare for the FTAA, Latin America needs to invest in infrastructure, its private businesses need to become more competitive, and "we need some safety nets and retraining", says Enrique Iglesias, the president of the Inter-American Development Bank.

In answer to the protesters, all the presidents stressed their democratic credentials. Certainly, the "democracy clause" could help to prevent a return to authoritarian rule in Latin America. But will the leaders have the courage to apply it—for example, against Mr Chavez, were he to transgress democratic norms in future? They did agree to send a mission to Haiti, where opponents claim an election last year was dubious.

It was not encouraging that the summit largely ignored the problems of Colombia, where democracy is threatened by drug- financed guerrillas and paramilitaries; the leaders merely issued a bland statement supporting Colombia's government. Mr Bush did discuss his plans for extra anti-drug aid to Colombia's neighbours. But there was no discussion of the wisdom of a general war against drugs in Latin America.

The costs of that war—and the depth of the United States' involvement in it—were highlighted by the deaths in Peru on April 20th of an American missionary and her baby. They were killed when an air-force jet shot at their aircraft, confusing it with a drug plane. The missionaries' aircraft had been spotted by an American spy plane. American officials claimed that the Peruvian jet had fired without following agreed procedures for identifying suspicious aircraft and forcing them to land. Peru said an investigation should precede assignments of blame. The surveillance flights, which have resulted in 30 planes being forced down or shot at since 1995, have been suspended.

Latin Americans need no reminders that the drug war has many innocent victims. And whatever their doubts, they and the United States left Quebec committed to proceeding with the FTAA. They will discuss it again at their next summit, to be held in Argentina, perhaps in 2003. No doubt the protesters will be back, too.

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Canada

Duopoly

Apr 26th 2001 | MONTREAL
From The Economist print edition

ARE Canadians being deprived of a pluralist choice of media outlets? A recent flurry of acquisitions and mergers means that in English-speaking Canada all but one of the main newspapers now belong to a television or telecoms giant, while in Quebec both of the province's two private television networks are in the hands of Quebecor, a newspaper and printing firm.

In Montreal, Canada's second city, Quebecor owns the most popular French-language newspaper in addition to its television channels. CanWest Global Communications has a similar grip on the English-speaking market in Montreal: it owns the lone English daily as well as one of two private English-language television stations. Indeed, CanWest's grip extends across the country: in most big cities it owns at least the dominant paper and one of the top television stations. In Vancouver, the third largest city, it owns both daily newspapers and two of the top three stations.

Government-appointed committees have fretted over the issue but done little, though CanWest was pressed by the broadcasting regulator into selling television stations in both Montreal and Vancouver this month. But the Liberal government of Jean Chrétien seems to have lost interest after the retreat of Hollinger, owned by Conrad Black, which published over half of Canada's daily newspapers. Mr Black, a conservative, used his papers to express his contempt for the prime minister. But last year he sold most of them, to government allies (the English ones to CanWest, the French ones to a company controlled by Mr Chrétien's in-laws).

The most visible impact of "cross-ownership", which is restricted in most developed countries, has been shameless promotion in the newspapers of their sister stations' programmes. The quality of news coverage also seems set to suffer. At least one "converged" company is looking at having its journalists do double duty, for both print and television. And the media barons are not shy about using their organs for politicking.

CanWest is controlled by the Aspers, a Liberal family. Last month, the editors of its newspapers were reportedly instructed to avoid talk of an imminent recession (in case that might hasten one), and to provide pro-Israeli coverage of the Middle East. Criticism of the broadcasting regulator was also said to be off-limits. CanWest's television licences—vital to the company, especially now as it struggles with debt taken on to buy the newspapers—are up for renewal.

Neither is Quebecor free from political ties. One of the world's largest printing companies, it has received much investment from the Caisse de dépôt et placement, the provincial pension fund. The firm has backed independence for Quebec. After the death of its founder, however, his son, Pierre-Karl Péladeau, began making federalist noises. But these died down after the Caisse financed Quebecor's purchase of Vidéotron, the dominant cable company in the province and the owner of its most-watched television network. Now Mr Péladeau argues that Quebec needs strong media companies to protect its language and culture.

Critics disagree. The strict controls on foreign ownership of Canada's media are bound to be relaxed soon, they say. That could make companies like Quebecor and CanWest irresistible targets. "Time Warner or Bertelsmann could swallow them without a burp," says Paul Boin of the Campaign for Press and Broadcasting Freedom.

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Mending Sao Paulo's broken heart

Apr 26th 2001 | SAO PAULO
From The Economist print edition

THE crumbling Luz railway station in Sao Paulo, whose centenary is on May 1st, is emblematic of many things: Brazil's neglect of public transport and of historic buildings; the vanished influence of the British, who built the station and many of South America's railways; and above all the decline of Sao Paulo's city centre.

A forgotten cousin of Britain's Victorian stations, Luz was shipped across the Atlantic in pieces, taking six years to assemble. It was restored after a big fire in 1946, the year the British-run railway was nationalised. But decades of neglect and bad city government followed. Sao Paulo remained Brazil's industrial and financial powerhouse, but its centre hollowed out as banks and businesses fled to new districts. The station was left rotting and underused. It became known as "crack-land" after the drug addicts who roamed around it.

Other Brazilian cities, such as Salvador, have become tourist magnets by restoring their colonial-era historic centres. Much of Sao Paulo's colonial architecture was long since demolished to make way for skyscrapers, but the city centre still has some interesting buildings. In recent years, Viva O Centro (Long live the city-centre), a pressure-group backed by businesses that have not fled, has persuaded the city, state and federal governments to revamp some of these. Another city-centre railway station, Julio Prestes, has been turned into a concert hall; a disused office building has become a shopping mall. On April 21st, another century-old building, formerly a bank, reopened as an arts centre.

Now Luz station may also be saved. Last month, the charitable arm of Globo, a Brazilian media empire, agreed to raise 17m *reais* ($8m) to repair the station buildings, and turn them into a centre celebrating the Portuguese language. Sao Paulo's state government is extending the rail and metro lines that pass through the station. That should triple the number of passengers who use it each day to 500,000. A "cultural tram" line will be built linking Luz to the other restored buildings.

Nevertheless, reviving Sao Paulo's centre is not easy. Even BankBoston, one of the founders of Viva O Centro, is vacating some of its buildings there, and moving staff to one of the newer business districts ("to follow our customers", it says). But at least a start has been made in turning the city centre into somewhere worth taking the train to once again.

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Venezuela

Back to the soil

Apr 26th 2001 | CARACAS
From The Economist print edition

THE issue of land rights is dear to the heart of Hugo Chavez, Venezuela's president. He was born and brought up in Barinas, a farming state. But his country is mainly urban; only 12% of the population live in the enormous hinterland of *llanos* and jungle. With so much space, there should be no agrarian problem at all. But there is, and Mr Chavez wants to fix it.

According to Julio Mora, head of the National Agrarian Institute, half of the country's 500,000 or so farms occupy just 1.6% of the arable land. At the other end of the scale, 1% of the farms account for over 46% of the land. That is despite 40 years of "land reform" under a discredited two-party system swept aside by Mr Chavez's election victory in 1998. Rural poverty is worse than ever.

The president has sworn to abolish the *latifundio* (big estate), "or stop calling myself Hugo Chavez". But after more than two years in power, his government has yet to produce the final text of a land-rights bill. The confusion has been magnified by the frequent leaking of draft versions.

Venezuela has nothing like Brazil's large and well-organised landless movement. But inspired by their hero in the presidential palace, scattered groups of land-hungry peasant farmers have taken matters into their own hands. According to Fedenaga, the cattle ranchers' federation, 139 farms have been invaded, though the government says this figure is an exaggeration.

From the start, Mr Chavez said he would not use the National Guard to evict squatters. He has threatened to limit the size of farms and accused (unnamed) landowners of relying on "bogus" title documents. But the question of title is a tricky one, in a country where land registries are chaotic and most land has not been surveyed—including that belonging to the National Agrarian Institute, the country's biggest landowner.

By calling into question existing titles, farmers say, Mr Chavez is undermining the constitutional right to private property, encouraging squatters and discouraging productive investment. Officials counter that they do not intend to seize productive land, and that compensation would be paid for any expropriation.

In fact, the traditional *latifundio*, with its tied labour, was already almost extinct even before the last land-reform law, of 1961, according to Mr Mora, of the institute. Fedeagro, the farmers' federation, blames any idle land on the government's lack of an agricultural policy. Credit is expensive, and an overvalued currency makes imported food cheaper than home-grown varieties.

Matters came to a head last month, when a landowner was murdered in a still-murky incident apparently involving squatters. Fedenaga announced that it was setting up a fund for mutual aid against land invasions. "Wherever there is an invasion and the state does not ensure compliance with the law, we—duly organised—will do so," said Jose Luis Betancourt, Fedenaga's president. That provoked Mr Chavez to warn anyone promoting vigilante groups that he would be sent to prison. His defence minister withdrew a promise to allow landowners to renew their gun licences.

The landowners do not question the right of landless peasants to a plot of land. But they say that squatters are often manipulated by developers, or even by corrupt local officials of the institute. They often invade productive farms, or divide up land on the edge of towns for urban plots. Many business people worry that Mr Chavez's incendiary speeches, in the absence of firm proposals for rural development, merely foment violence.

Rains are due next month, and with them the planting season. But political uncertainty is making farmers reluctant to invest. The government has promised a debate on the issue, but only after the bill is published. When will that be? An adviser to Fedenaga complains: "So far there have been eight drafts, and every one is different."

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A magician in Japan

Apr 26th 2001 | TOKYO
From The Economist print edition

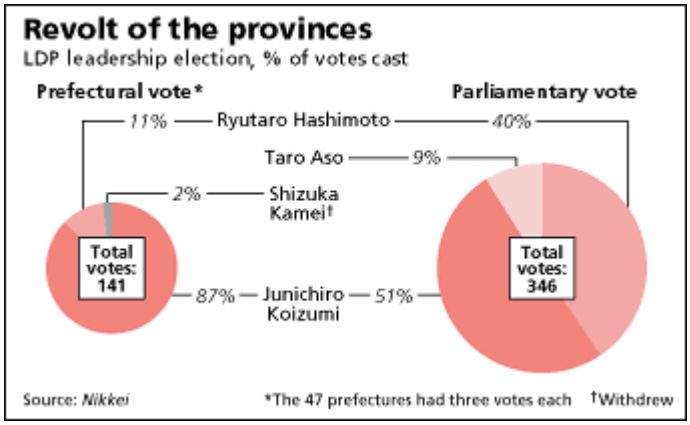
Will the "Koizumi revolution" catch or fizzle?

"GAMBARO!" cheered Junichiro Koizumi, punching the air with his fist. "Let's do our best!" Japan's new prime minister will have to do better than that. By winning the leadership election of the Liberal Democratic Party (LDP) against the wishes of its top men, Mr Koizumi has already performed one conjuring trick. If he is to honour his bold promises of reform, he will have to perform another.

No one seemed more surprised by the election upset than Mr Koizumi himself. Only a week ago, Ryutaro Hashimoto seemed to have the keys to the *kantei*, the prime minister's official residence, in his pocket. Now Mr Hashimoto has been soundly beaten and his faction, which controlled Japanese politics for nearly 30 years, finds itself out in the cold. "It seems the earth is shaking," said Mr Koizumi, his flowery rhetoric getting the better of him. "The simmering magma is about to explode."

This is a disaster for the party bosses and they will want to put it behind them as quickly as possible. Along with his own faction, by far the biggest in the LDP, Mr Hashimoto was also the choice of Hiromu Nonaka, the party's top power-broker. Yet while Mr Nonaka was stitching up the parliamentary vote, the LDP's local chapters had other ideas. The last time the LDP changed leaders, a year ago, the party's 2.3m rank-and-file members had no say in picking Yoshiro Mori, a terrible choice. This time they demanded a big vote, and cast it in such overwhelming numbers for Mr Koizumi that his popularity carried the parliamentary party too.

Mr Hashimoto's faction was supposed to be the mightiest vote-gathering machine in Japanese politics. Put together by Kakuei Tanaka, the father of money politics, and lovingly tended by Noboru Takeshita, his political heir, the influence of Mr Hashimoto's faction reaches far down into the industrial support groups, whose members make up two thirds of the LDP's party faithful. Once the faction had picked Mr Hashimoto, the word duly went out to the shopkeepers, the farmers and the postal workers. According to the *Asahi* newspaper, the postal workers' outfit, whose 250,000 members form the LDP's single biggest support group, was asked to return blank ballot papers on to which Mr Hashimoto's name would then be written. Yet with an election for the upper house of parliament looming in July and the LDP desperately unpopular, the party revolted. "We picked the best man to lead us into the election battle," says one party hack. "It's as simple as that."



Mr Koizumi will now have to prove that he is more than a "poster boy for the elections", as Naoto Kan, a leading opposition politician, is calling him. With his shaggy permed hair and outspoken views, Mr

Koizumi's carefully cultivated image as a political eccentric makes him popular with voters, who are heartily sick of mainstream politics, though, as the LDP's election has shown, Mr Koizumi can play factional politics with as much finesse as any insider.

Not so grey

Parts of Mr Koizumi's colourful new line-up look decidedly experimental. With a nod, perhaps, to the unpopularity of all elected politicians in Japan, Mr Koizumi has leant heavily on unelected policy experts like Heizo Takenaka, a sparky, media-friendly economist who, as an adviser to the last administration, became known as "Mr Mori's brain". Mr Takenaka's new job, as economy minister, gives him a chance to push for the sweeping structural reforms he has championed outside government.

Five of Mr Koizumi's cabinet will be women, including Atsuko Toyama, another non-politician, and, as foreign minister, the acid-tongued Makiko Tanaka, who, like Mr Koizumi, has an image as an LDP outsider. Critically, Mr Koizumi has also kept on as minister in charge of the financial clean-up Hakuo Yanagisawa, whose tough plans for the banks have come under assault from the LDP establishment. Less likely to please the markets, however, is Mr Koizumi's strange choice for finance minister, the 79-year-old Masajuro Shiokawa, an old political ally with scant financial experience. The hope had been that he would put a fellow-reformer, such as Koichi Kato, into that job.

The new prime minister still falls far short of the sort of platform he needs to push genuine reform. However he juggles the numbers, liberal thinkers like Mr Koizumi are a minority in the LDP. He has the support of Taku Yamasaki, whom he quickly installed as the party's secretary-general, and possibly of Mr Kato, who last autumn took on the Hashimoto faction and lost. But Mr Koizumi must reach beyond the LDP's "anti-mainstream" if he is to survive more than a few months. He has already started trying to sway factions within the LDP, such as that of Shizuka Kamei, which are at heart hostile to his ideas. Inevitably, this will involve compromise, as did his appointment of Taro Aso, the outgoing economics minister, to the post of LDP policy chief. Mr Aso's past fiscal policies conflict with Mr Koizumi's plans.

Eventually, he may even have to reach outside the LDP's existing coalition partners, the Buddhist-backed New Komeito and the New Conservative Party, although he is sticking with them for now. New Komeito, which champions Japan's underdogs, is an active brake on reform. If truth be told, Mr Koizumi is closer to elements within the main opposition Democratic Party of Japan than he is to much of his own party. A fundamental realignment of Japanese politics, long predicted and long overdue, may beckon again.

Mr Koizumi's campaign promises ("Change the LDP, change Japan") have aroused expectations that something is about to happen for the better. Mr Koizumi's new cabinet is an interesting start. But, with his camp surrounded by counter-revolutionaries, he has only three precious months in which to turn the LDP's dismal fortunes round. After July's election comes another LDP presidential poll in September, unless the party changes its rules first. Mr Koizumi's televisual charms, winning smile and punchy soundbites will get him only so far. Japan's voters are in a brutal mood. They want nothing less than miracles.

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Taiwan

Arms and studied ambiguity

Apr 26th 2001
From The Economist print edition

Has America's policy towards Taiwan shifted?

Get article background

Reuters

No Aegis for Taiwan

DECRYPTING the utterances of George Bush is a tricky enough business at the best of times. So when the issue is one which diplomats have deliberately clouded in ambiguity for decades, even the most learned semiotician is liable to be stumped. This week, officials and observers in Washington, Beijing and Tapiei were scrambling to decide whether Mr Bush has radically shifted policy by stating that America has a duty to defend Taiwan in the event of an attack on the island by China, or whether he was simply confused. On balance, it looks like a case of confusion.

Since the full normalisation of relations between America and China in 1979, America's Taiwan policy has been a study in vagueness. It terminated its military alliance with the island, but at the same time, in the shape of the 1979 Taiwan Relations Act, Congress obliged the administration to supply Taiwan with the weapons it needs to defend itself. Every government since then has ducked the question of what it would do in the event of an invasion. A clear pledge to aid Taiwan would be read by China as a revival of the alliance, and probably as grounds for a diplomatic breach. A promise to stay out would encourage an invasion, and anyway be unacceptable to Congress. Ambiguity suits everyone, including the Chinese and the Taiwanese themselves.

So when Mr Bush's answered, "Yes, we do," on being asked during an ABC interview whether America had a duty to defend Taiwan, alarm bells started to ring. But in the very next sentence, he appeared to revert to more familiar ground, by repeating that America "would do everything it took to help Taiwan defend itself"—entirely consistent with the 1979 act. This was the line he continued to follow later in a hastily brought-forward interview, and the one his aides have offered ever since.

Though China has been happy to airbrush the remarks—which if taken at face value would require a strong response—from history, Mr Bush's slip may give an important insight into his thinking. Though the policy of "strategic ambiguity" has not been formally abandoned, as some around Mr Bush have urged, it is perhaps a little clearer what Mr Bush might do in a crisis. Both China and Taiwan will have to factor that into their calculations.

At the same time, they are also digesting the implications of this week's latest arms package for Taiwan. On April 24th, America promised to sell weapons that will boost Taiwan's ability to deter a Chinese naval blockade, or attacks on its ill-protected fleet. Taiwan did not get everything it had asked for—destroyers equipped with state-of-the-art Aegis radars, land-based Patriot PAC-3 anti-missile systems and HARM missiles capable of striking targets on the mainland were deemed by Mr Bush to be too provocative for now. But Taiwan will be able to buy eight submarines—the first offered by America since 1973—as well as 12 submarine-hunting P-3 Orion aircraft.

The submarines have angered China because it regards them as offensive weapons. But though it described the arms sale as "devastating" for Chinese-American relations, China knows it will still have the upper hand, with its dozens of submarines including four Kilo-class vessels recently acquired from Russia. Besides, there is still doubt over who will supply the diesel-powered submarines, which America no longer builds and which the Europeans are refusing to supply. And Taiwan will remain almost defenceless against China's huge and fast growing ballistic-missile arsenal on the coast facing the island.

China's dummy missile tests off Taiwan's two main ports in early 1996 showed it could terrorise the island without even moving its troops, though an invasion would be much harder. The Americans estimate that China has lined up about 300 M-9 and M-11 missiles already and is adding to them at the

rate of one a week. Aegis radars would not have offered much protection against these missiles. The ships could not have been delivered until the end of the decade. By then, China would have easily enough missiles to overwhelm them.

Taiwan's 23m citizens are anyway far more interested in their island's ability to weather the global economic downturn. Should the arms sale now prompt China to step up its belligerence towards Taiwan, the political future of Taiwan's president, Chen Shui-Bian, will become all the gloomier. His Democratic Progressive Party badly needs to wrest control of the legislature from the opposition Kuomintang in the parliamentary election due in December, and it is far from certain that it will succeed.

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The Philippines

Estrada arrested

Apr 26th 2001 | MANILA
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IT WAS not quite as dramatic as his fall from office, but it still captured the country's attention. On April 25th, after fiddling for days with the paperwork and triggering a series of false alarms, the police swooped in to arrest Joseph Estrada, the Philippines' recently ousted president. While thousands of his supporters held vigil outside, Mr Estrada gave television interviews from his house in a posh Manila suburb, decrying the unfair treatment he was about to receive. Overhead, the news crews circled in helicopters, filming the police as they ploughed a path through the crowds to whisk him away. The next time Mr Estrada appears in public, if the authorities have their way, it will be in court, as a defendant in a capital case.

Mr Estrada now stands accused of "economic plunder", a charge reserved for those who steal $1m or more from the state. Although he was recently indicted on seven other charges, the accusation of plunder is the most serious. It precludes him from leaving prison on bail, and potentially carries the death penalty.

The bulk of the evidence against Mr Estrada has already been aired publicly during the impeachment hearings that began last year. The authorities say that he siphoned off more than $80m from the country after taking office in mid-1998, through kickbacks, bribes, misdirected taxes and much else.

Despite all the evidence against him, Mr Estrada managed to escape impeachment in January, when a handful of allies hijacked the process in the Senate. The huge resulting public protests prompted the army to withdraw its support from Mr Estrada and the Supreme Court to declare the presidency vacant. Mr Estrada has gone to court to challenge the legality of his dismissal, but in vain. Whether he suffers an even worse fate may depend on the vagaries of the Philippines' criminal procedures.

Mr Estrada and his lawyers are already looking for loopholes. They tried to delay his arrest until prosecutors could hold a fresh investigation. They may also try to have the plunder law declared unconstitutional by the Supreme Court. Although the evidence against him is formidable, mistakes by ham-fisted investigators may surface, disqualifying crucial bits of it. Or, this being the Philippines, the case could become derailed for any number of other unexpected reasons.

The former president is fighting back in the political arena as well. On May 14th mid-term congressional elections will be held, in which the entire lower house and just over half of the powerful 24-member Senate will be up for grabs. Mr Estrada's successor, Gloria Macapagal Arroyo, needs a working majority in the lower house and, more difficult, she must win at least eight of the 13 available Senate seats to get a majority there. If she fails, it will hurt her claim to be the legitimate president, perhaps giving Mr Estrada an extra edge in his efforts to slow down the prosecution. In an attempt to thwart Mrs Arroyo in the Senate, he had, before his arrest, been campaigning heavily for his political allies around the country, apparently drawing on a pile of cash that, he says, he obtained legally before taking office.

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Indonesia

President or princess?

Apr 26th 2001 | JAKARTA
From The Economist print edition

What does the future hold for Megawati Sukarnoputri, Indonesia's upwardly mobile vice-president?

MOST of the world knows only two things about Indonesia's vice-president: she is the daughter of Sukarno, Indonesia's first president; and she does not have much to say for herself. Yet on April 30th, or soon after, Megawati Sukarnoputri will almost certainly move another step closer to the country's top job. That is when Indonesia's parliament will convene to consider a second censure motion, centred on a pair of financial scandals, against the current president, Abdurrahman Wahid.

Megawati waits

If they approve it, as looks likely, Mr Wahid will have one last formal chance to sway parliamentary opinion. But sometime between June and August he will probably face impeachment by Indonesia's constitutional assembly—the country's supreme body, consisting of the 500 members of parliament plus 200 more delegates, mostly from regional assemblies. As parliament prepares to meet, and the country braces for the possibility of violence, Miss Megawati's fortunes have come full circle.

In October 1999, Miss Megawati was fighting back tears on the floor of Indonesia's parliament after being beaten to the presidency by Mr Wahid. She had some reason to cry. Earlier in the year, her party had outpaced all others at the polls, winning 35% of the votes in the first free elections since the 1950s. But when she refused to negotiate with other parties, Mr Wahid, whose party had finished a distant fourth, stitched up a majority in the fractious constitutional assembly. When Miss Megawati's supporters began to riot, she ignored the stab in the back from an old friend, regained her composure and accepted the vice-presidency, calling on her backers to honour the result. She thus transformed a humiliating defeat into one of her finest moments.

One of the big questions now looming over Indonesia is whether Mr Wahid will return the favour if he falls. Last week he threatened, not for the first time, that his supporters from East Java would run amok if parliament unseated him. Yet despite their current rivalry Mr Wahid and Miss Megawati have a long and close relationship, dating back to when her father was president and his was a revered Muslim cleric. They fight like brother and sister, and the almost-blind Mr Wahid likes to make jokes at the expense of his vice-president's intellect ("I can't see and she can't speak" is one), but in the end they have always managed to hold together their two groups of supporters, both drawn largely from Java's poor.

That is one reason Miss Megawati has remained so silent publicly, even as her party prepares to dispatch Mr Wahid. And it is also why a deal between the two, in which Mr Wahid retains his title but hands over most of his authority, cannot be ruled out. However, a deal like that was tried last year, and has conspicuously failed to stick. But if, as looks increasingly likely, she does take over some time this summer, Miss Megawati's troubles will only just be beginning. She will inherit the same problems that have plagued Mr Wahid for the past 18 months, steadily softening him for the kill.

Some of those problems, such as the widespread violence and the volatile currency, seem to cry out for a bit of stability. That could give the silent and stately Miss Megawati an advantage over the erratic and combative Mr Wahid, who sometimes gives the impression of saying the first thing that comes into his head. Yet standing back and letting things settle may prove more destabilising for the world's fourth-biggest country. Many of its troubles, including corruption and useless courts, will yield only to firm action. Others, such as Indonesia's troublesome generals and determined separatists, must be tackled with a wider range of political skills than either the president or his deputy has so far displayed.

Not everyone is thrilled by Miss Megawati's typically Javanese indirect approach. For one thing, it reinforces the perception that she is more of a crown princess, her only political asset her father's name,

than a genuine presidential contender. But though it raises fears about how she would govern, that cautiousness also has its advantages. If she should replace Mr Wahid in a few months' time, her willingness to do it slowly and by the book—whether out of caution, respect for the rule of law, or, as some say, a fear of bad karma—would set a better precedent than a hastily arranged ousting of Mr Wahid. Miss Megawati is said to be haunted by the fate of her father, who was kept a virtual prisoner in Bogor Palace after he had been toppled and rarely allowed to see his devoted daughter. She of all people has no desire for the mistreatment of presidents to become a national habit.

Nor is Miss Megawati's attachment to her father's legacy entirely bad. She is likely, for example, to champion the same secular approach to governing the largely Muslim country that Mr Wahid has. That, though, poses difficulties of its own. For now, she has the backing of fiercely Islamist politicians, including the constitutional assembly's speaker Amien Rais. In 1999, they said that a female president was inconsistent with Islam, and backed Mr Wahid. Now they have changed their reading of the texts, but Miss Megawati knows that, once they have eliminated her predecessor, they will eventually turn on her: Mr Rais's huge ambition and propensity for plotting is one of the salient features of Indonesia's political landscape. The Islamists already have their eye on her third husband, Taufik Kiemas. His entrepreneurial flair, it was reported last week, has made the two of them the richest political couple in Indonesia.

Besides secularism, Sukarno's name also stands for nationalism and for an uncompromising, centralised approach to Indonesia's territory. That could lead her to crack down harshly on secessionist movements in Aceh and Irian Jaya, exacerbating the problems there. It will thus be interesting to see how she handles the armed forces. Though her own supporters have been the victims of their past brutality, she has shown few signs of reigning them in. The top generals clearly prefer her to Mr Wahid.

Lastly, there are the nagging questions about Miss Megawati's intelligence. Other countries have got by with presidents who fail to grasp the details, so long as they hold to the right principles and know how to delegate well. But with Miss Megawati, who makes George Bush seem like an intellectual, Indonesia would be taking a big gamble. Still, one of her firmest principles over the past two years has been an insistence that she would not negotiate over the presidency, but would hold out until she could have it on her own terms. As Mr Wahid squirms, that is beginning to look more clever every day.

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Laos

No dissent

Apr 26th 2001 | VIENTIANE
From The Economist print edition

AP

Democracy, Laotian-style

ALTHOUGH mainly distinguished by its repressive ways, Laos is not without friends. Japan seems to have paid for nearly every bus, park bench and rubbish bin in the capital, Vientiane. France, the former colonial power, is hopeful that its support for the government will lead to a revival of use of the French language in the country. In Vientiane, restaurants, bars and Internet cafés are kept in business by the community of aid workers rich enough to patronise them.

Yet this is a country of detention without trial, and with a mismanaged economy unable to lift the majority of the people out of poverty. Its veteran leader, Khamtay Siphandone, was routinely reappointed president of the Lao People's Revolutionary Party at its congress in March. Mr Siphandone calls the state-run newspaper "a propagandist, a mass mobiliser", and means it as a compliment. In its grim way, Laos resembles Myanmar. But whereas Myanmar is treated as a pariah, Laos's authoritarian ways are largely unremarked internationally.

In Myanmar, Aung San Suu Kyi's opposition National League for Democracy at least remains in existence, if cowed. Laos allows not even token dissent. Two known attempts to organise anti-government demonstrations were broken up by the police before the protesters could unfurl their banners. A string of bombings in Vientiane shows that at least one group is working against the government, but so far it has not identified itself. A number of opponents of the government live in exile, but they say little.

Far from acknowledging that the economy is badly run, the government proudly points to real GDP growth of 4.5% in 2000. But GDP per person was just $272 in 2000, and foreign aid accounts for more than half of the country's budget. Donors, however, seem reluctant to use it as a lever to improve human rights.

What of the United States? It does have a legitimate grievance against Laos. Two Americans of Laotian descent who disappeared in Laos over two years ago have not been found. America has indicated its displeasure by delaying the appointment of an ambassador to Vientiane. But America tends to be restrained towards a country that it punished severely during the Vietnam war. The Laotian government likes to remind the Americans that they dropped more bombs on Laos than they delivered over all of Europe during the second world war. In the absence of America's moral presence, Vietnam and China, neither of which is likely to promote liberal ways, remain the dominant foreign influences in Laotian politics.

Thailand, also a keen trader, is a distant third in influence. Anyway, its new prime minister, Thaksin Shinawatra, a businessman, is less likely to harp on human rights than did his predecessor, Chuan Leekpai, an academic. Mr Thaksin's business-centred foreign policy already seems to have pleased the Laotian government. In March, Thai and Laotian officials initialled a deal to build a second bridge across the Mekong river that divides their countries. Like the other one, it will be known as a "friendship" bridge.

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A surfeit of pills in Thailand

Apr 26th 2001 | BANGKOK
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THAILAND's military men have good reason to congratulate themselves. This week an anti-narcotics force seized over 6m stimulant pills from an armed gang on the border with Myanmar. Last week Thai soldiers grabbed over 7m in the same area. In January the navy hooked nearly 8m amphetamine tablets from two fishing boats sailing from Myanmar. All good news. But the bumper hauls reflect two related problems: a booming trade in artificially made drugs, and poor relations between Thailand and its neighbour.

Although the "golden triangle" is known for its opium production, alarm bells are now ringing over the spread of amphetamines from Myanmar. The Thai authorities say that the flow of *yaa baa*, or "crazy pills", into their country may nearly double this year, to 700m-800m pills. The United Wa State Army (UWSA), a heavily armed segment of Myanmar's Wa minority, makes most of them. Like many minority groups, the Wa have given up a long rebellion against Myanmar's army, choosing instead to make money selling drugs. Myanmar's ruling junta gives its blessing because the UWSA helps fight a bothersome ethnic group, the Shan, and because some of Myanmar's military leaders benefit from the drug trade.

None of this pleases Thailand, whose prime minister, Thaksin Shinawatra, is still working out how to deal with Myanmar. The flow of migrants into Thailand is one sore point. Another is a border dispute, which caused the two armies to exchange fire in February. But the flow of drugs is causing particular ill-feeling. The commander of Thailand's northern army, Wattanachai Chaimuanwong, says Thailand should stop selling electricity to the part of Myanmar that plays host to drug factories. Earlier this month Thai troops in Mae Sai detained a convoy carrying power-generating equipment from China to Myanmar.

Mr Thaksin says he wants to talk to his neighbour, not bully it. He is less willing than his predecessors to criticise Myanmar's prickly leaders, relying instead on quiet diplomacy. The deputy prime minister, Chavalit Yongchaiyudh, suggests his military contacts may smooth things with the generals next door. Others in the team play up business contacts in Myanmar.

But such schmoozing will be hard to keep up if the *yaa baa* flow continues to make headlines. Mr Thaksin has already intervened awkwardly in General Wattanachai's anti-drug campaign. Earlier this year, the general said he had a list of Thai officials who profit from the drug trade. Mr Thaksin said there was not enough evidence and got the general to drop it—without making the names public. But with a couple of million pills a day crossing the border, the prime minister is under pressure to do something.

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In India, never say die

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NEXT month's assembly elections in the southern state of Tamil Nadu are being turned into a test of the acceptability of corruption in Indian politics. On April 24th Jayaram Jayalalitha, one of India's most colourful film-stars-turned-politician, was banned from standing in the election on the ground that she had been convicted of corruption in a land deal last year. Undeterred, she is continuing to campaign as the candidate of her party, the regionally-based AIADMK, for the job of chief minister, and hopes to get round the ban. Such are the ways of Indian democracy.

AP

Jayalalitha—a star reborn?

Miss Jayalalitha was chief minister from 1991 to 1996, a term of office marked by widespread allegations of corruption and by tales of her flamboyant way of life. Her desire to be taken seriously as a politician was damaged when she staged extravagant wedding celebrations for her foster son in 1997 that were reported to have cost over $1m. Later, 400 pairs of diamond-studded gold bangles, 30kg of jewellery and 750 pairs of slippers were found when her home was raided.

Since then, she has rebuilt her popularity. Now her problem is a 1997 ruling by India's Election Commission that convicted criminals should be disqualified from standing for election for six years plus the length of their jail sentence, even if they are awaiting an appeal. The ruling was aimed at disqualifying convicted politicians whose appeals could take years to move through India's clogged legal system. But lawyers are divided on its legal validity.

A handful of convicted candidates have been quietly banned by electoral officers. Miss Jayalalitha is the first prominent politician to fight back. She asked the Tamil Nadu High Court this month to set aside her land-deal conviction pending appeal so that she could stand. But the court ruled in favour of the Election Commission's diktat, and state election officials this week barred her from standing.

Already the favourite to win the polls to be held on May 10th, the AIADMK could now reap a sympathy vote. Miss Jayalalitha could then be made chief minister, providing she were elected to an assembly seat within six months—although it is possible that Tamil Nadu's governor might refuse to swear her into the job. To get a seat, she would have to appeal to the courts to allow her to stand in a by-election. With a strong popular vote behind her, that could get her back to the chief minister's mansion.

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The Balkan jigsaw

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From The Economist print edition

It is still not clear, after Montenegro's general election, whether the remains of Yugoslavia's federation will now collapse. In any event, tension in nearby Kosovo and Macedonia is probably a bigger threat to the region's frail peace

Get article background

AP

IT WAS hard, at first, to work out who had prevailed in the election on April 22nd that was meant to settle the future of the small but strategically placed republic of Montenegro—and perhaps also the fate of the shrivelling, decrepit federation of Yugoslavia. Were the victors those who wanted this rocky but magnificent stretch of Adriatic coastline to become an independent state, or those who wanted Montenegro to stay on as Serbia's last, albeit tiny, partner in a shrunken federation of southern Slavs?

In fact, President Milo Djukanovic and his pro-independence block had done a bit worse than expected and the pro-Serbian opposition a bit better. Yet it still looks difficult to see how the Yugoslav federation can survive intact.

Supporters of Mr Djukanovic—who won western favour in 1997 by disavowing Serb nationalism and its champion, Slobodan Milosevic, then Yugoslavia's president—finally got 36 of the 77 seats in Montenegro's parliament; the pro-Yugoslav camp only three fewer. But the pro-independence tally rose to 44 with the inclusion of six seats for the strongly pro-secession Liberal Party and two for the republic's ethnic Albanians.

So Mr Djukanovic can still bank on the simple majority required to call a referendum on independence; contrary to his earlier hopes, however, he failed to win the two-thirds majority of seats needed to change the constitution. Nor does it now look likely that a ballot on independence would yield more than a slight majority in favour. Britain's foreign secretary, Robin Cook, who visited Podgorica on April 25th, appeared confident that Mr Djukanovic had dropped plans to hold a plebiscite as early as July, so there would be time for some sober talks before any rush to secede. At the same time, Mr Cook seemed more open than before to Yugoslavia's final break-up.

If Montenegrins felt puzzled by the result, western policymakers were in even greater disarray. Before last October, when Mr Milosevic held sway in Serbia, and in particular during NATO's air war over Kosovo in 1999, they used to urge the Montenegrin government to assert as much autonomy as possible, though they never quite endorsed full independence.

In those bad old days, boosting Montenegrin self-rule was one of the cards the United States and its allies played in their battle of wills with Mr Milosevic's regime; and so, perhaps, though this is harder to prove, was the tolerant if not positively friendly attitude of NATO, once it had taken over Kosovo, to the ethnic-Albanian rebels who took up arms in southern Serbia last year.

Now that relative moderation, in the person of Vojislav Kostunica, Yugoslavia's new president, has prevailed among the Serbs, the West has at times sounded rather desperate to dampen Montenegro's ardour for statehood, and also to contain armed Albanian nationalism. But in both places rebottling the genie may prove hard.

"A democratic Montenegro within a reformed and democratic Yugoslavia is probably best for the region," said Richard Boucher, the spokesman for America's State Department, after the results had become clear. But with

both remaining bits of Yugoslavia now more or less democratic, it will be much harder to negotiate new terms for their coexistence in a single state. Montenegro will be looking for a share of federal power that is disproportionate to its tiny population; Serbia will be loth to agree. Though Serbia's change of guard has reduced the risk that Montenegro's own feuds will spark violence, it cannot be ruled out. Mr Djukanovic must now rely in parliament on the Liberals, who want immediate independence; Predrag Bulatovic, the pro-Yugoslav party leader, may find it hard to tether his armed hotheads.

But the danger of more war in the southern Balkans looks much greater in Kosovo and the adjoining bits of Macedonia and Serbia, where offshoots of the supposedly defunct Kosovo Liberation Army (KLA) have raised the standard of Albanian nationalism. Indeed, a big reason why western governments have been so twitchy about Montenegro's possible secession, even under democratic procedures, is that they fear that any Balkan border changes might galvanise people trying to impose them by force. This applies especially to the armed Albanian nationalists whom NATO's governors in Kosovo have been struggling to co-opt or tame.

Since Mr Milosevic's fall, the attitude of NATO and particularly of its American contingent towards the ethnic-Albanian fighters in southern Serbia has become much tougher: scores of rebels have been held—comfortably, it seems—at an American base, and Yugoslav forces have been allowed to re-enter a strip of territory on Kosovo's east which was previously a sort of no-man's-land. But far from stifling the rebels, the allies' policy switch has apparently prompted them to redirect their attacks on another government, that of NATO-friendly, multi-ethnic Macedonia, which teetered on the brink of civil war for much of last month.

Though western governments are determined to thwart the creation of a "greater Albania" on maps or in diplomatic theory, the people who wield real power in the southern Balkans are no great respecters of either. Montenegro is by no means the last piece in the Balkan jigsaw.

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Ukraine's reformer goes

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WHEN the politician who is supposedly the most powerful in the country is unable to protect the one who is certainly the most popular, something odd is afoot. On April 26th, Ukraine's parliament ignored requests from its president, Leonid Kuchma, and voted to boot out the prime minister, Viktor Yushchenko.

The ousted man was well regarded in the country thanks to his solid, honest-sounding style and to the success of his 16-month-old government in cutting salary and pension arrears. He brought at least a semblance of order to the country's corrupt energy market. Ukraine's economy is growing too, thanks partly to a (perhaps temporary) uplift in neighbouring Russia.

But even the government's limited reform efforts had bruised some powerful people, especially the tycoons at Mr Kuchma's court. They had demanded big changes in the government—and big jobs for their chums. When Mr Yushchenko refused, they teamed up with old-fashioned communists to ditch him.

Mr Yushchenko's demise will tarnish still further Ukraine's sorry image abroad, which has been battered by a scandal involving a murdered journalist and leaked recordings of foul-mouthed presidential pow-wows. Mr Yushchenko and his able American wife were symbols of hope that the country could both reform and move out of Russia's sphere of influence. The next prime minister, even if nominally a reformer, will probably be much nicer to the tycoons—and maybe to Russia. That will be hard for Ukraine's western friends, who lobbied hard for Mr Yushchenko.

Things look bleak now for Mr Kuchma too. Despite much jealous sniping at Mr Yushchenko in the past, he decided in the end that he would rather have him in office than out of it, where he might head a powerful challenge from the democratic and nationalist opposition. But Mr Kuchma's pull in parliament proved too weak. Are his old cronies turning against him?

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Turkey

Horror with hope

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From The Economist print edition

Despite the grim news from Turkey's prisons, there is a flicker of hope that the country can haul itself out of its crisis

AS IF coping with one of the worst financial crises in the republic's 77-year history were not enough, Turkey's battered government now faces another challenge: the growing number of deaths among hunger-strikers protesting against conditions in the country's notoriously nasty jails. It is more than four months since nearly 800 left-wing prisoners, along with their relations and sympathisers, started refusing food. Since March 21st, at least 19 have died. Bulent Peker, of the Turkish Human-Rights Foundation, says that "many more will die, and very soon" if the government does nothing.

EPA

Another coffin in the prisoners' cause

Chief among their grievances is the total isolation of prisoners held in solitary confinement. Hikmet Sami Turk, the justice minister, has sent to parliament some proposed amendments to Turkey's law on terrorism. The changes would, among other things, allow prisoners held in solitary confinement to join in communal activities such as physical exercise.

But Fatma Sener, a 22-year-old philosophy student who has been surviving on sugar, salt and water for the past four months, points out that the amended law would still require prisoners to prove they had abandoned the subversive thoughts and actions that landed them behind bars in the first place. Two of Miss Sener's comrades have died in the past week in a shack she shares with three remaining hunger-strikers in a militantly left-wing quarter of Istanbul called Kucuk Armutlu.

"Every death brings us closer to victory," rasps Resit Sari, the only male in the house. He is probably wrong. From the start, the authorities have been thumpingly uncompromising. In December, raids on 20 prisons left 30 inmates and two paramilitary policemen dead. Most of the victims, the government said, had burned themselves to death on orders from their ringleaders.

Nor do the hunger-strikers seem to be getting much support from abroad. Many West Europeans are usually quick to swoop on events like this to support their argument that Turkey should not be allowed to join the European Union. But so far there has been little reaction from abroad to the hunger-strike, perhaps because there is little sympathy for the murderous left-wing factions that are organising it.

It is, of course, a big distraction for the government as it seeks cash from western countries and the IMF to ease the two-month-old economic crisis. So far this has cost over 500,000 Turks their jobs, and depressed the lira's value against the dollar by as much as 80%. Still, hopes rose a little on April 14th when Kemal Dervis, the popular new economy minister recruited last month from the World Bank, unveiled an ambitious set of reforms. By his reckoning these reforms, if they are properly implemented, might win Turkey up to $12 billion in new foreign loans.

The strongest cause for hope is that the United States and the IMF have both made plain that no money will be disbursed unless real changes are made. The Turkish parliament has with rare alacrity already approved four measures pointing in the right direction. And Turkey's influential generals have set an example to spendthrift civilian politicians—at the same time disappointing western makers of military aircraft and tanks—by announcing a $19 billion cut in spending on arms.

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Charlemagne

Elmar Brok and Europe's old integrationists

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PHYSICALLY as well as philosophically, Germany's Elmar Brok is a scaled-down version of his mentor, Helmut Kohl. During Mr Kohl's long tenure as chancellor, Mr Brok, a veteran member of the European Parliament, was regarded as his man in Brussels. Like Mr Kohl, the cigar-waving Mr Brok specialises in bluff bonhomie; and like his mentor he has a vision of Europe that is as ample as his waist-band.

In his time Mr Kohl was a powerful advocate of ever closer integration between Germany and the other countries of the European Union. Together with Jacques Delors, when he ran the European Commission, Mr Kohl spawned Europe's currency, the euro. He famously aimed to create a "European Germany, not a German Europe". But Mr Kohl has gone, and his disciple Mr Brok is now in open revolt against the direction in which Europe is heading. He was one of the European Parliament's two official observers at the EU negotiations that culminated in last December's treaty at Nice—and he did not like what he saw.

There is more than a whiff of institutional self-interest in Mr Brok's complaints. The European Parliament has feeble powers by the standards of national legislatures, and at Nice it was given none of the extra ones it craved. But Mr Brok has a broader point. Nice, he moans, saw the first step backwards in the drive to European integration since a heralded European Defence Community was aborted in the 1950s.

Under the complex new voting system adopted in Nice, any EU decision now needs three different majorities: a majority of the EU's countries; 62% of the Union by population; and a newly raised threshold of 75% of the votes allotted to EU countries by a special "weighting" in the Council of Ministers, whereby small countries still get a bigger share of the votes than their population would suggest. Such a system, fumes Mr Brok, will not work, particularly once today's EU of 15 countries expands to take in as many as 12 more. "It's a formula to prevent things happening," he grumbles.

Mr Brok, predictably, says that the main snag at Nice was that his friend Helmut was not there. He views the current generation of European leaders as pygmies beside figures such as Mr Kohl, Mr Delors, France's late President François Mitterrand and Spain's former prime minister, Felipe Gonzalez. He dismisses Britain's Tony Blair as "another John Major", whom continental Europhiles scorned. As for France's current president, Jacques Chirac, Mr Brok does not trust himself to say anything: he merely raises his eyebrows and shrugs. The weakness of today's leaders, Mr Brok believes, is that they have no memories of Europe at war. So they get bogged down in the defence of national interests; they cannot lie happily back and think of "Europe".

Eurosceptics are doubtless delighted by Mr Brok's despair. But they should beware. He has emerged from his post-Nice sulk, and is again confident that things are moving his way. His new mood is due in large part to the apparent conversion of Germany's current leaders to a vision of Europe that is firmly in the integrationist tradition of Mr Kohl. The most celebrated expression of this was a speech last May by Joschka Fischer, Germany's foreign minister, who called for the "completion of integration in a European federation". This provoked strong reactions across Europe but Mr Fischer reduced its weight by labelling it "a personal view".

More recently, however, both Gerhard Schröder, Germany's chancellor, and Johannes Rau, its president, have delivered less-noticed speeches that echoed much of Mr Fischer's. In January Mr Schröder called for deeper political integration in Europe; he said that pan-European institutions, especially the European Commission in Brussels, should become stronger. This month it was Mr Rau's turn. He told Europe's parliament that he would like a "federation of nation-states" and a bicameral European legislature with much stronger powers.

To Mr Brok, all such speeches are squarely in the tradition of old King Kohl himself. He thinks they show that his countrymen have learnt the lesson of the "failure of Nice". Trying to cut deals between heads of state will not work, he argues, particularly once 27 of them are jostling around the conference table. The EU, he argues, will advance only by strengthening European institutions that define and bolster a general

interest.

Mr Brok and the integrationist camp think that the EU's plan for a declaration at the end of this year on Europe's political future may give them their head. The Union, he argues, should abandon its old method of leaving constitutional negotiations to national leaders. Instead, at a meeting in the Belgian town of Laeken in December, it should propose a broader constitutional convention to include worthy people like, well, members of Europe's parliament, as well as academics, national MPs and a sprinkling of elder statesmen. The convention should work to a speedier timetable. Rather than finishing its work in 2004, as now planned, it should draw up a constitution by the end of 2003. Conveniently, the Italians, who tend to enthuse about European federation, will hold the EU's agenda-setting presidency in the second half of that year. So Mr Brok talks eagerly of a new treaty of Rome to seal the process started at the first one, in 1957. That dreadful document signed in Nice could then be chucked into the dustbin of history.

Is this serious? There are big obstacles in the way of a further great leap forward towards European integration. Britain will dig in its heels; Spain will not be keen; and France remains a study in Gallic ambiguity. But it is still striking that an influential German Christian Democrat should be so happy with a vision of Europe articulated by a Green foreign minister and a Social Democratic prime minister. Mr Brok may be right that Mr Blair's stand on Europe is more like that of the hesitant, equivocating Mr Major than the current British prime minister would care to acknowledge; and Mr Schröder's is beginning to look a lot more like Mr Kohl's. Indeed, in the politics of the EU, national governments come and go; national policies tend to stay much the same.

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Spain

State v church

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RELATIONS between Spain's government and the Roman Catholic church have soured, even though, and maybe because, the prime minister, Jose Maria Aznar, and several other ministers are regular churchgoers. The main reason is the bishops' failure to put their names to an agreement to fight ETA, the Basque-separatist terror group, that was made last December by Mr Aznar's People's Party (PP) and the Socialist opposition. The two parties agreed to co-operate against terrorism and not to play politics with the issue. But the bishops disliked the prologue to the accord, which included some sharp words aimed at Basque nationalists, most of whom do not support terrorism.

To many Spaniards this clerical hesitation smacked of ambiguity towards the terrorists. Strong links were forged between Basque nationalists and the local clergy in the late 19th century, which grew when General Franco repressed any expression of Basque identity. Was the church soft on ETA?

EPA

Aznar seeks help from above

Mindful that the clergy will influence voters in the election to the Basque regional parliament on May 13th, some of Mr Aznar's more devout ministers have been pushing the bishops to condemn ETA in a way that would come close to endorsing PP policy. They wanted the bishops, who held an assembly this week, to declare that members of ETA would be excommunicated. But the bishops stood their ground. Their number one, Antonio Maria Rouco Varela, cardinal-archbishop of Madrid (and a political conservative), has roundly condemned terrorism but has made no mention of the possibility of excommunication.

Basque bishops have more often acted as mediators rather than appeasers in the conflict, most recently during a 14-month truce declared by ETA, the terrorist group. And they have united Basques in protest marches against ETA's killings since the gunmen ended the truce in December 1999. The bishops angrily insist they have always condemned violence and that to suggest otherwise, as the government has been doing, is a gross distortion.

A second source of discord was the church's reaction to a law that took effect in January, making it harder for illegal immigrants to stay in Spain and easier to deport them. In several cities illegals occupied churches. The bishops have urged Mr Aznar to make "every effort" to improve their lot.

In the 14 years of Socialist power until 1996, the church managed to live with the government, for all the anti-clericalism of its leader, Felipe Gonzalez. But the bishops hoped for better when Mr Aznar won office: compulsory religious education and stricter laws on abortion. They were disappointed, most recently when the government approved use of the "morning after" pill. Keen to stress his distance from Franco's confessional state, Mr Aznar said these were personal issues for individuals to decide.

Most Spaniards would agree. But Mr Aznar could then hardly expect the bishops to obey meekly when he told them what to say or do about politics. And perhaps it is as well they did not. For much of General Franco's dictatorship many of the clergy danced to his tune. A seemly distance between church and state is probably better for both, and certainly better for Spanish society at large.

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Poland and the Holocaust

It wasn't just Germans

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The discovery of a Polish atrocity against Jews in the second world war is making many Poles rethink their past

THERE is a hole in a field at the edge of Jedwabne, a town in north-eastern Poland, where a memorial used to stand. The words on it said that on July 10th 1941 Germans burned alive 1,600 of Jedwabne's Jews. This July, on the anniversary, Poland's top politicians, churchmen and rabbis will unveil another monument. This one will declare a more painful truth: that it was Poles, admittedly incited by Germans, who exterminated their neighbours. Tongues were sliced off, eyes poked out. After the adults had been herded into a barn and burned, the exterminators scoured Jedwabne for hidden Jewish children who, when found, were roped together and pitchforked alive on to the embers of their parents.

Reuters

All that is left of the village's Jews—bar the controversy

This new account, based on the research of Jan Gross, a Polish academic who works in America, has shattered the average Pole's belief that in the second world war his country was solely a victim. Some 6m Poles, half of them Jews, were killed during the war. But the revelation from Jedwabne challenges Poland's "paradigm of innocence" and shows that it was not only Germans who slaughtered Jews in the days of Hitler.

A painful self-examination has begun. *Wprost*, a weekly paper, has listed ten major episodes of Polish anti-Semitism. The most recent was in 1968, when an outburst of anti-Jewish feeling led many of Poland's surviving Jews to flee the country. Some impressive investigative journalism has uncovered new facts for the historians to consider. People are talking about it in bars and living rooms. "For the first time it doesn't avoid anything, and it is public. It is tremendously positive," says Stanislaw Krajewski, a leader of Poland's Jewish community, which nowadays numbers only about 7,000.

Catholic intellectuals have led the debate. The Polish primate, Cardinal Jozef Glemp, has issued an apology. But Jedwabne's local priest, and some right-wingers, have seen less cause for contrition. Lech Walesa's former confessor, Father Henryk Jankowski, has shocked many people by denying any Polish role in the killings. Most right-wingers do not go so far. The killing of Jews was wrong, they admit—but so was the deportation of Poles to Siberia, often, they say, the result of collaboration by Jews with the Soviet secret police (half of Poland was under Soviet occupation from 1939 to 1941).

Such talk is rare, however. Most Poles, even Jewish Poles, confess themselves surprised about what happened at Jedwabne. President Alexander Kwasniewski captured the general mood by declaring Jedwabne a cause of national shame which should be written into the history books. Whatever the level of German involvement, the president said, it was Poles who did the killing.

The mayor of Jedwabne, Krzysztof Godlewski, wonders what all this is doing to his shabby town, 40% of whose workers are unemployed. Council business has come to a halt in preparation for the July ceremony, which Mr Godlewski hopes will be a dignified call for reconciliation. "Jedwabne is not Poland, and a group of murderers is not Jedwabne," he says. Local people resent the journalistic invasion. After all, they explain, most of the town's families went to live there after the war. Nobody has consulted Mr Godlewski about the wording on the new monument. If it is too condemnatory, he fears somebody will deface it.

All this is the latest step in a delicate re-examination of Polish-Jewish relations. In 1991 the church had a letter read out from its pulpits condemning anti-Semitism. Visiting Israel in the same year, Mr Walesa, then the country's president, apologised for the crimes of some Poles against Jews. The pope, a Pole himself, raised the tone in 1997 by referring to Jews as "elder brethren", a phrase from a famous

nationalist poem. In 1999 the government removed the controversial crosses planted by Catholic fundamentalists by the Auschwitz concentration camp.

Now the pressure is on the historians. A government agency, the Institute of National Remembrance, has been charged with producing a clearer picture of what happened in Jedwabne and nearby places where similar atrocities took place; in neighbouring Radzilow, 800 Jews were burned alive. It has already uncovered new evidence in German and Belarussian archives. But the debate is, perhaps inevitably, messy. Some historians have accused Mr Gross of shaky scholarship, suggesting that the Germans had a more direct hand in the killings than he reckons.

It is, in one way, an argument in a void. As in many other Polish towns and villages, all traces of Jewish life in Jedwabne have vanished. “I saw a Jew visiting here once, a couple of years ago, and it was an exotic abstraction,” says Mr Godlewski sadly.

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France

Business not as usual

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ANOTHER day, another Paris bus strike. This week's one did not amount to much—the Metro was still running—but it is likely to be followed by fiercer displays, after a concatenation of events that has revealed new tensions in France's political and business establishment as the economy slows and next year's presidential and parliamentary elections draw nearer.

The first tremors came at the end of March, when both Danone, a French food manufacturer, and Marks and Spencer, a British-owned retailer, announced closures and lay-offs. The M&S affair raised eyebrows because its French stores are doing better than its domestic ones. Lionel Jospin's government huffed and puffed about the British group's short-termism and lack of consultation. Angry staff will take their ire to London next month to protest.

The Danone affair has had more effect. On April 21st thousands of demonstrators travelled to its doomed factory in Calais to show solidarity with 2,500 workers, only 800 of whom are French, who will be laid off as Danone shakes itself up. Opinion polls suggested that the company's public image had plummeted. Franck Riboud, its boss, complained in a newspaper interview that a consumer boycott of its products was unfair; he was simply trying to ensure Danone's future, not to be political. Naive, proclaimed the rest of the French press: business is inherently political, and managers must remember that they are part of a social compact before they shut plants or slash jobs.

Politicians, especially Mr Jospin, whose normally sure touch seems to have deserted him recently, have rushed to join the fray. On April 24th the government proposed amendments to an employment bill already before the legislature to make lay-offs harder and more expensive for big employers. When 1,000 workers or more are fired at once, the employer will have to offer up to six months of retraining, besides forking out twice as much severance pay as at present.

The courts may shoot this down: in France, a bill, once presented, cannot be amended beyond a certain point. But the rumpus has already begun. Even as Elisabeth Guigou, the labour minister, was speaking in parliament, Moulinex-Brandt, a white-goods group controlled by an Italian company, said it would close three French factories and lay off 2,900 workers. Other companies may rush to make job cuts simply to get in ahead of the new rules.

Medef, the employers' association, railed that the government was resorting to "the most ridiculously outdated techniques of a command economy". Medef noted that the French economy is at an awkward moment thanks to a world downturn. Businessmen, it said, had created 1.5m jobs in the past three years; now politicians would mess things up by introducing silly new rules just when companies needed flexibility if they were to keep growing.

The battle has also turned personal. Ernest-Antoine de Seillière, Medef's head, is himself under fire as a businessman. He is a shareholder in AOM-Air Liberté, a troubled airline group, one of whose parents, Swissair, wants it closed. Last week, Jean-Claude Gayssot, France's (Communist) transport minister, accused Mr de Seillière of fleeing his responsibilities to AOM-Air Liberté's employees. Nonsense, he replied: he had nothing to be ashamed of; it was the government's efforts to wreck the French economy that people should worry about.

In a further twist, the Cour des Comptes, a sort of financial watchdog, published a critical report on how the French state managed its own affairs. The report did not make happy reading for the many agencies and ministries it analysed. And weight was lent to it by its appearance just after the government had broken off pay talks with public-sector unions, saying it would give a tiny rise for the next couple of years. There is now an open split between right and left over labour relations and the role of business in society. More strikes seem inevitable.

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The trouble with targets

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The government is relying heavily on targets to improve public services. The way things are going, this looks like a mistake

WITH a crumbling transport infrastructure and an overstretched health service, Britain may lag the rest of the rich world in the quality of its public services, but it leads it in the use of targets to measure how those services are performing. The government portrays targets as a revolutionary step in the delivery of better public services. If it is right, the British approach will be a model to other countries. If it is wrong, the experiment will serve as an object lesson in the perils of over-centralisation.

The rationale for targets is straightforward. What matters at the end of the day is what public services deliver—their outputs—not how much cash they absorb. Since the public sector is not subject to the same competitive pressures as the private sector, it requires external pressure to improve its performance. That is what targets are supposed to provide.

> The planners tried various expedients. They issued instructions that user demand should be met. They modified the bonus systems so that the achievement of purely quantitative targets should not be sufficient, that the assortment plan had also to be fulfilled, that costs had to be reduced, the wages plan not exceeded, and so on. They experimented with a kind of value-added indicator known as "normed value of processing". Each of these "success indicators" had its own defect, induced its own distortions. Thus, insistence on cost reduction often stood in the way of the making of a better-quality product. A book could be easily filled with a list of various expedients designed to encourage enterprises to act in the manner the planners wished, and the troubles to which each of them gave rise.
> ***Alec Nove, "An Economic History of the USSR"***

This month, a new set of targets has come into force. Linked to the government's spending plans for the three financial years that start this April and end in March 2004, they break new ground in their focus on the actual outcomes of public spending. Whereas an output target might be the number of police officers, an outcome target is a reduction in crime. According to Colin Talbot of Glamorgan University, two-thirds of the new targets now comprise outcomes. Some of these stretch a long way into the future. For example, there are precise numerical commitments to reductions in mortality rates from heart disease and cancer by 2010.

These new targets overlap with the first lot, which were introduced in early 1999 and mostly extend until 2002. There are around 600 of them. So how successfully are the public services meeting them?

There is no simple answer to that simple question. Not only is the information scattered across reports issued by individual departments, it is often difficult to interpret. "The target regime is virtually

impossible to follow," says Tony Travers of the London School of Economics. "The government has engineered an incredibly complex world where targets and indicators change and it is very difficult even for experts to keep a grip on what they are and to understand whether they are being achieved."

In the arcane world of Target Britain, achievements boasted by Whitehall departments are often less than they might seem. Take the Department of Social Security. At first sight, it appears to be doing very well, on course to meet all but two of its 30 targets. But look a little closer and you start to wonder. Consider two "achievements": the completion of legislation to introduce stakeholder pensions and the maintenance of the minimum income guarantee (MIG) for pensioners. It is hard to see why the government should congratulate itself on meeting its legislative programme or on delivering on a commitment like the MIG which had been laid out in the 1999 budget.

Or take Britain's beleaguered agriculture ministry (MAFF), currently wrestling with the foot-and-mouth epidemic which has devastated rural Britain. According to MAFF's annual report, it is meeting ten out of its 13 principal targets. The trouble is that one of the three missed targets includes a pledge to prevent outbreaks of serious diseases. This illustrates a central weakness in scattergun targeting: some objectives matter more than others.

The government has accepted that its first set of targets did not hit the bull's eye. Supposedly SMART—specific, measurable, achievable, relevant and timed—they turned out to be anything but that. The new set of targets has sought to address the earlier weaknesses, through both the new focus on outcomes and a drastic cull in the number of "high-level" performance targets, from around 300 to 160.

But are the new targets any better? A recent report from the National Audit Office revealed nervousness within government about whether they will work. The NAO surveyed 17 departments and found that the biggest worry is about the lack of incentives for workers to meet the targets. Another concern is the difficulty in identifying "high-level quantifiable measures of the intended outcomes"—even though departments had spent a year laboriously negotiating just those. Departments were also worried about their ability to influence final outcomes.

These concerns are widely shared outside Whitehall. The King's Fund, a health-policy think-tank, says that the excessive use of targets in the NHS is reducing local managers' freedom to respond to local needs. Mr Talbot warns that "in general it is easier to measure outcomes than who is responsible for them." He says that "the jury is out whether the target regime will degenerate into something that is farcical and useless".

Although the targets generally appear to be worthwhile, there are worries that the focus on outcomes that can be quantified comes at the expense of others that cannot so easily be measured. So even if the individual objective is achieved, it may be at the cost of worse performance in another area. For instance, literacy and numeracy may easily be targeted, but improvements in schools in those areas may be at the expense of less measurable virtues, such as creativity.

John Kay, an economist, says that the whole experiment is doomed. "If targets work, then the Soviet Union would have worked."

Since the government is so keen on targets, it is important to find out just how well they work. At present, the targets are agreed between departments and the Treasury, and the Treasury holds departments to account for their performance. The select committee of MPS whose job it is to monitor the Treasury says this is undesirable—that independent scrutiny of departments' performance against their targets is essential. It calls for the government to set up an external audit by the NAO, or some such body.

As long as the government chooses to write and mark its own school reports, its use of targets will lack credibility. If it continues to refuse an external audit, suspicions will grow that targets are really about centralising power. If that is the case, the government's infatuation with targets may turn out to be as unhealthy as most obsessions.

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Call centres

The Asians are coming, again

Apr 26th 2001 | KNOWSLEY
From The Economist print edition

Modern call centres have much in common with 19th century textile mills, but even their detractors must hope that they do not meet the same fate

THE north-west of England was a favoured destination for 19th century pilgrims. Manchester was the first city of the industrial revolution, the wonder of the age. First port of call was a cotton mill. Some came to marvel at the new steam-powered machinery, others to gasp at the horrendous working conditions and the open sewers that flowed through the surrounding slums. In particular, it was a mecca for aspiring political theorists. Friedrich Engels came away with a new theory of class warfare in the bag, Benjamin Disraeli with the concept of "One Nation" conservatism. Others did not bother with the political theory, and just nicked ideas for manufacturing methods, which they took home and improved on.

For a century or so after that, Manchester was ignored, except by football fans. But now the visitors are beginning to come back. Their object is to see what is often referred to as the 21st century equivalent of the dark satanic mill, the call centre—or "managed contact centre", as the jargon has it. One such centre, Phoenix House in Knowsley, just to the west of the city, has already been visited this year by the Portuguese ambassador and a team from Japan, as well as your correspondent. Some Germans are due in next week. If not quite the wonders of the age, call centres have become at least as important to many local economies as the old mills, and just as controversial.

Although call centres are well established in America, Britain is the leader in the field in Europe. In 1999, Britain accounted for over half of all Europe's call centres. Datamonitor, a research company, reckons that there could be as many as 5,200 call centres in Britain. The Trades Union Congress (TUC) estimates that there are now the equivalent of over 400,000 full-time jobs in the industry. That's 1.5% of all jobs in Britain—twice as many as the total number left in the old metal-bashing business of making trains, planes and cars.

The industry has expanded on the back of the rapid growth in the rest of the service sector. Call centres are taking up the slack in areas of economic decline, with the industry concentrated in areas such as Scotland and the north-west and north-east of England (see map).

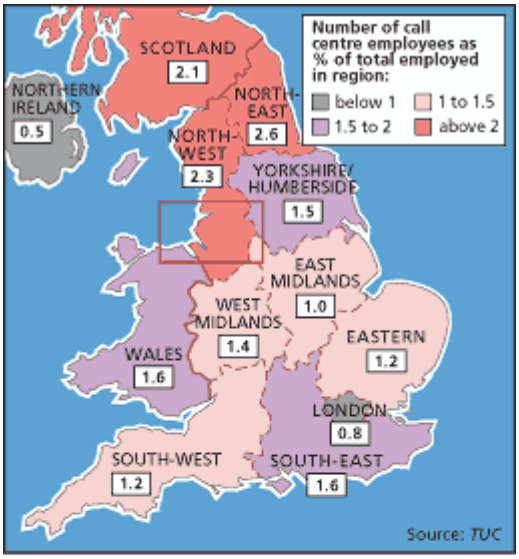
J.K. Walton, a historian, has described working in the old mills as "imposing long hours of regimented toil, at a pace and rhythm by an external motive power and watched over by a hierarchy of supervisors, in an unpleasant and unhealthy environment". This would be an equally good description of the worst of today's call centres, and is why they are known as the modern sweat shops.

There was a time, not so long ago, when most of the "customer service representatives" (CSRs)—the people manning the phones—seemed to be undercover journalists competing to expose the most brazen instance of bullying and humiliation in the workplace. The most famous (true) story concerned one supervisor who offered his staff nappies so that they could spend less time away from their phones in the toilet.

Even in the best-run call centres, the work is intense and relentless, with CSRs expected to deal with over 20 calls an hour, and in some cases two calls a minute. The TUC highlighted many of the bad practices in a recent report on the industry, based on a secret hotline for employees. The biggest sources of complaint were the high levels of monitoring, especially of trips to the toilet, and the lack of breaks. Trades unions are also preparing hundreds of claims over the condition known as "acoustic shock",

caused when CSRs are subjected to sudden loud noises through headsets.

Wages in call centres tend to be low, as they were in the old mills. The average salary for a CSR is about £12,850 ($18,500), compared with the overall British average of £22,000. The call centres claim that although the money is not great, shift-working offers the sort of flexibility that students and single mothers need. As in the old mills, the call centre workforce thus tends to be young and predominantly female. In the second half of the 19th century, 300,000 of the 500,000 workers in Lancashire's mills were women. The vast majority of these were aged 16 to 30. Today, 67.4% of the call centre workforce is female, and about 70% are aged 16 to 35. At Phoenix House, run by Vertex, a call-centre company, over 50% of the workers are single mothers or students.



But the real danger for the call-centre industry does not come from union activists complaining about poor working conditions, but from abroad. Just as the Lancashire cotton industry was eventually undermined by cheap textile imports from Asia, so in the next few years Manchester's call centres will face fierce competition from new operations in India, many of them set up by call-centre managers from Britain. With lower labour costs, and intensive coaching in colloquial English (including briefings on football and the weather), these start-ups must hope to do to Manchester's call centre business what their forebears did to the north-west's textile industry.

Vertex is confident that it can provide a better level of service and customer retention than the Indians can offer. Some of its employees have received months of training in how to handle accounts more efficiently. As a sign of its faith in the future, Vertex has invested £2.5m in what it likes to call a "third-generation" call centre up the road from Knowsley, which will handle Internet and e-mail customers. It is about to open, and is expected to employ another 700 people with levels of skill and efficiency Vertex maintains the Indians will struggle to emulate. They will need to be quick and clever if Britain's call centres are to keep further ahead of the Asian competition than the textile industry did.

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Prostitution

Card index

Apr 26th 2001
From The Economist print edition

An unequal battle is going on between the government and London's prostitutes. The government is losing

THE idea that cracking down on petty crime helps to deter more serious sorts has crossed the Atlantic and become firmly entrenched among British politicians. Last week Tony Blair announced various new schemes to sweep graffiti and other such nuisances from inner-city streets. But the startling resilience of one such affliction in central London suggests how ineffective the massed resources of government can be when confronted with determined pests.

PA

The resilience of the market

Along with black taxis and red buses, one of London's most distinctive features is the wallpaper in its phone boxes: a lurid, eclectic mosaic of cards advertising the services of the city's prostitutes. Some other British towns, notably Brighton, have attracted the same marketing strategies, but not on such a scale. BT estimates that more than 13m prostitutes' cards are removed from public phone boxes in central London every year. The mobile-phone boom has obliged the company to seek new ways of making money from its boxes, including advertising. But this uninvited sort costs BT around £250,000 a year, mainly in cleaning bills.

Disappointingly for clients, the increasingly explicit images and alliterative slogans that adorn the cards often bear little relation to the actual services on offer. But ministers and councillors are more anxious about the impression they make on children and foreigners. Tourists, they say, are offended—though confusingly the Home Office also reports that cards are often aimed at the tourist market. Some central London schoolchildren have begun to collect and swap them, as a free alternative to Pokémon cards. Derek Holbird, head teacher at Soho Parish school, says he is vigilant about this bizarre new hobby.

The battle to rid London of this scourge has been long and largely futile. Since it emerged in the 1980s, the distributors have found ways round every new obstacle the authorities have set up. When the courts ruled that stickers caused criminal damage, they turned to cards. Another court was successfully persuaded that because a phone box is an enclosed space, leaving stuff inside it does not constitute littering. The small fines which are occasionally imposed on the prolific "carders" are regarded as occupational hazards: Westminster council reckons there are 150 such people operating in the borough, earning around £30 for every 100 cards they post. BT's own efforts to bar phone lines advertised in its booths have been frustrated by prostitutes switching to other providers. One effort to co-ordinate call-barring was successfully challenged by the London Committee of Call Girls under the Restrictive Trade Practices Act.

In the hope of finally defeating this ingenuity, the government has announced (though not implemented) plans to create a new offence of advertising sexual services, punishable by a fine of up to £1,000. Meanwhile, like their nineteenth-century forebears, London's evangelical Christians have entered the fray. The Evangelical Alliance is encouraging teams of churchgoers to "adopt a phone box", and clean up the carders' detritus. Kit Malthouse, a Westminster councillor, hopes such local initiatives will shame the government into action.

There is, of course, a serious criminal element in London's vice trade, involving children and trafficked women. Mr Malthouse views the proliferating cards as the "tip of a vice iceberg". Yet eradicating them could exacerbate the prostitution problem rather than relieving it. Home Office research indicates that "many of the services offered on prostitutes' cards cater for particular sexual tastes which would not be easily advertised on the street"; but there is a danger that some call-girls could be driven either outdoors, or to rely on intermediaries, who are sometimes violent and exploitative.

Alternatively, if prostitution were legalised, its practitioners would be freer to pursue more conventional forms of advertising. And government would be spared the embarrassment that tends to result from its collisions with the market.

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Charities

Sell your pictures

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From The Economist print edition

A ruling by the attorney-general could force the sale of art held by charities, colleges and schools all over Britain

WHEN Captain Thomas Coram returned to London from America in 1703 he was shocked by the number and condition of homeless children on the streets of the capital, so, after a long struggle against English apathy, he set up a Foundling Hospital in 1739. Like any smart fund-raiser, Coram enlisted the stars. Hogarth and Handel were among his trustees. Handel conducted weekly at his premises, and gave the first performance of the Messiah there. Hogarth painted a full-length picture of the captain and asked fellow artists to donate their works. The hospital evidently met a need. In its first four years, destitute women from all around the country dumped 15,000 babies on its doorstep.

Thanks to its eminent patrons, the Thomas Coram Foundation now owns the most important British art collection in private hands. It includes works by Hogarth, Gainsborough, Ramsay and Reynolds. But these days the foundation does not have enough money either to look after its pictures or to show them to the public. It has therefore drawn up a scheme to sell the pictures to the nation for some £30m over a period of 25 years and to receive them back, as public property, at 40 Brunswick Square, near Coram's Fields in Bloomsbury, where they would be shown and properly looked after in a new museum for Londoners.

But one of the foundation's 25 trustees did not like the scheme. He appealed to the attorney-general, Lord Williams of Mostyn, who has ruled against it. Art owned by charities, says the attorney-general, is "an asset like any other"; and the duty of trustees of charities towards assets is "to realise their value"—that is, to hold them as investments, or sell them. The Coram Foundation's scheme falls foul of his ruling because its objective is not, as the attorney-general maintains it should be, to raise as much money as possible for the charity's principal purpose—looking after children.

The attorney-general's fiat applies not just to institutions under direct rule by the Charity Commission but also to universities, schools, hospitals, Inns of Court and churches, many of the latter laden with Elizabethan or Georgian communion silver donated in more generous times. The walls of Oxford and Cambridge colleges are covered in fine pictures. Among schools, Dulwich College was handed in the 1790s the collection destined to be the National Gallery of Poland. Many less famous but worthy institutions own paintings which hang, sometimes dust-covered and unregarded, in forgotten corridors. Presumably they, like the Coram Foundation, will in the future have to treat these as capital, not as art.

The argument is not yet over, for the attorney-general's ruling is being angrily disputed. In a recent debate in the House of Commons, he and his junior were attacked from all sides. "If it is unlawful to try to keep this unique and valuable collection together, I ask: since when?" inquired Frank Dobson, the Coram Foundation's MP. "Was it unlawful in the 1740s to keep the paintings when Hogarth's brush was scarcely dry? Was it unlawful in the 1930s, when the paintings were moved to their present home at 40 Brunswick Square?" The culture secretary, Chris Smith, is said to be dismayed; and there are mutterings of concern from Downing Street too.

"The attorney's attitude freezes the blood," declared Sir Nicholas Lyall, an MP who was the Conservatives' attorney-general. "When an ultimate objective is noble, it is the duty of the protector of charity to facilitate, not to impede." It's a fine sentiment—but in law, it seems, charities must now realise assets, not noble objectives.

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Speak no evil

Apr 26th 2001
From The Economist print edition

JUST in case you were wondering, Bagehot undertakes on this page to represent all the interests of his readers, regardless of race, sex, colour and religion. He rejects all forms of racial violence and racial harassment. He declares that he will not publish or in any way endorse any material likely to generate hostility or division between people of different racial, national or religious groups. He will not encourage others to discriminate, and he will not himself stir up racial or religious hatred. He will make sure that everyone involved in producing this page pledges to abide by these principles, and he calls on everyone involved in the forthcoming general election, especially politicians, to do the same.

If you are still here, thank you for putting up with the previous paragraph, which British readers will recognise at once as a mightily abbreviated version of the "election compact" published by the government-funded Commission of Racial Equality (CRE) and signed by the leaders of all of Britain's main political parties. Intended to prevent one another from "playing the race card" during the coming election campaign, the pledge has already produced the opposite result, eliminating whatever small chance remained of keeping race out of it. The refusal of a handful of Tory MPs to sign the pledge has been seized upon by the Labour government and its Liberal Democrat allies as the latest exhibit in a prolonged campaign to brand the whole Conservative opposition as racist. Charles Kennedy, the leader of the Lib Dems, has gone so far as to declare the Tory leader, William Hague, "unfit" to lead his party.

The truth is that Mr Hague's only crime is to lead a party which argues for a tough policy to deter the tens of thousands of immigrants who are entering Britain claiming asylum under the 1951 Geneva Convention but are in fact in no danger of persecution in their home countries. Ann Widdecombe, the shadow home secretary, says that all asylum-seekers should be locked into reception centres while their cases are assessed, and that those who are turned down should be deported at once. The government says that such a policy would be both draconian and unaffordable, but admits that it is legitimate—ie, not self-evidently "racist"—for the opposition to propose it. The government's charge of Tory racism has therefore rested chiefly on the Tories' choice of words. Mr Hague's critics see a racist message in his party's description of some asylum-seekers as "bogus", and in his now notorious warning from Harrogate in March that if Labour was re-elected Britain would become a "foreign land".

This speech was a mistake. Mr Hague gave the asylum controversy greater weight than it deserved, allowing it to take the place of the broader positive vision which it behoves a party leader to describe on the eve of an election. But before condemning the man as a racist, at least read the speech. For it cannot be emphasised too many times that the bit about the "foreign land" really did not refer to asylum. Mr Hague was talking, as he had in umpteen previous speeches, about a different subject dear to his heart: the danger which he thinks the government's policies on Europe and the constitution, taken together, pose to Britain's national identity. His opponents claim that it was Mr Hague's own spin doctors who connected the "foreign land" bit of his speech to the asylum bit, and thereby injected a dose of racist poison into the election campaign. But even if this is true, it is Labour and the Liberal Democrats who have worked hardest to keep the poison in circulation.

By way of example, consider the speech in which Robin Cook, the foreign secretary, claimed last week to be celebrating Britain's ethnic diversity by pointing out that chicken tikka massala had become its national dish. What went unnoticed in the ensuing culinary excitement was the foreign secretary's wicked distortion of what the Conservatives actually say about national identity. According to Mr Cook, the Conservatives believe Britishness to be under siege from three directions: from immigrants; from the European Union; and from Labour's devolution of power to Scotland, Wales and Northern Ireland. This fear, says Mr Cook, is nonsensical: the truth is that of all of these things will in the end make British identity stronger.

Perhaps they will. What matters here is not whether Mr Cook is right. What matters is that he has simply fabricated the first prong of the three-pronged argument he accuses the Conservatives of making. Yes, they do say that ever-closer European union, combined with devolution, could one day lead to Britain's submersion inside a Europe of regions. But no senior Conservative dares these days to put immigration on the list of things that endanger British identity. On the contrary, Mr Hague has delivered a platter of chicken tikka massala speeches of his own. In one recent one, he said that Britain had always been a

nation of immigrants—whether Normans, Huguenots, Afro-Caribbeans or Chinese—and that this diversity continued to make the nation strong.

Can Mr Hague genuinely believe in the virtues of ethnic diversity if he allows his party to make such a fuss about asylum? In logic, the Tories are perfectly entitled to say that they want Britain to be a safe haven for genuine refugees without wanting it to become a soft touch for economic migrants who exploit the asylum system in order to jump the queue. Voters, by the same token, are entitled to decide that the Conservatives are fibbing, if for example the party gives this issue undue prominence, or speaks about it in terms that suggest its real aim is to scoop up the votes of bigots. If there is any solace to be had from the accusations of racism, it is that British politicians now expect to win more votes by denouncing bigotry than by making subliminal appeals to it. The pity is that this has led Labour and Liberal Democrats to make racism an overt issue in the election, by laying what looks increasingly like a trumped-up charge against Mr Hague.

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Local government

Marriage from hell

Apr 26th 2001
From The Economist print edition

The battle between Hackney council and an IT contractor offers some lessons for those flirting with public-private partnerships

LAST year, the borough of Hackney suffered the sort of financial chaos and civil unrest more commonly associated with Latin America than with London. Amongst the biggest problems was a chronic failure to collect taxes and pay benefits—services administered not by loony-left council officials, but by a private company, ITNET. This month, Hackney brought the services back in-house.

In 1997, Hackney employed ITNET to administer its benefits and revenues, initially for seven years, with an option for another three. The contract was worth £70m. Before ITNET got involved, the services were poor; now they are disastrous. The borough is the worst in the country at collecting council tax. The average time taken to process a new housing benefit claim from a local-authority tenant is more than double the London average. A recent report by a government inspectorate concluded that the "service provided to claimants over the last three years...has been very poor". The report says that only 7% of calls in ITNET's benefits call centre were answered by staff in the period inspected—meaning, presumably, that 93% went unanswered.

Along with the council's wildly overspent budget, the victims of this failure have been Hackney's poor, of whom there are many. Patrick Smith, a partially disabled Hackney resident who depends on housing benefit, says that ITNET's failure to process his benefit resulted in eviction notices from his private landlord. To keep his home, he had to get a solicitor to take action against the council. There are stories of people being evicted, and many private landlords will now not take on tenants like Mr Smith.

ITNET, whose share price has been hit by the divorce, argues that its council-tax performance has not been as bad as the national figures imply, and that the backlog of cases it has bequeathed is smaller than the council's estimate of 40,000. Housing benefit is infamously complicated, and the company insists that, like other contractors, it has been afflicted by government fiddling—particularly a new framework for countering fraud. Indeed, ITNET itself has had considerable problems in the neighbouring borough of Islington.

Given Hackney's concentration of lone parents, unemployed people and immigrants, administering benefits in the borough is about as tough a task as the public sector has to offer. Beneath the haze of recrimination, it also seems clear that, as the inspectorate concluded, the contract did not contain adequate provision for resolving disagreements over performance standards, or for taking remedial action.

Both parties now seem intent on making a scene. They have already been to court because ITNET wanted Hackney to pay it to hand over data; an interim ruling obliged the company to release them without payments. Hackney now says it will pursue a claim of £30m or more against ITNET. And so on. This acrimony has hampered the council's struggling effort to re-establish the services, though it has managed to set up a helpline for those facing imminent eviction.

Hearteningly, Max Caller ("Mad Max" to his enemies), Hackney's managing director, is not so scarred by this break-up that he is unable to form new relationships. Hackney has recently brought in outside contractors to run its main IT system and collect its rubbish (it previously ran the most expensive refuse service in the country). The borough hasn't even finally said goodbye to ITNET, which still administers its payroll.

The outsourcing of local-government services is big business, and there are many happy relationships. Hackney is a warning to prospective partners to sort out their own problems, and a workable contract, before rushing to get together.

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Bank mergers

Border raids

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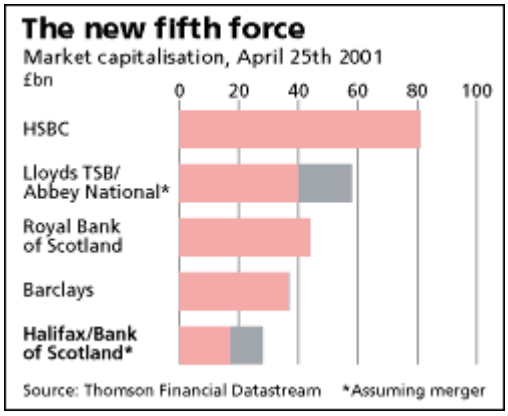
From The Economist print edition

FIRST scalp went to the Scottish invaders, as the Royal Bank of Scotland snapped up NatWest in a daring cross-border raid. Now the English are counter-attacking in the form of Halifax, Britain's largest mortgage lender, which is talking about merging with Bank of Scotland. Although the deal is being represented as a merger of equals, Halifax looks set to be the senior partner. The combined group will represent a significant new force in British banking, the fifth-biggest by market capitalisation with the fourth-biggest book of assets in Britain.

For Halifax, the merger is driven by the same forces that led to its decision to junk over 100 years of history in 1997 and convert itself from a mutually owned building society into a publicly quoted bank. Halifax had woken up to the fact that the glory days of rapid, profitable growth in the housing-loan market were over. Annual transactions would never again reach the 2m peak of the late 1980s. For new growth markets, Halifax would have to look elsewhere.



Although the strategic decision was sound, the initial outcome of Halifax's demutualisation was disappointing. Pressure on margins—the gap between lending and deposit rates—intensified as the building societies, led by Nationwide, fought back. For a time, Halifax could afford to lose market share for new loans, secure in the knowledge that it had a highly profitable "back book" of previous loans. But this business has now become the new battleground for mortgage lending, with remortgages accounting for a third of all lending in recent months.

Under its chief executive, James Crosby, Halifax is fighting back on a number of fronts. Firstly, it is determined to maintain its position as the top mortgage lender. To do this, it has crossed swords with Nationwide, matching the building society's recent cuts in lending rates in the so-called "mortgage wars". Secondly, Halifax has extended its reach in the long-term savings market by acquiring the sales force and unit-linked business of Equitable Life, the troubled mutual life insurer.

The merger with Bank of Scotland will make Halifax for the first time a force to be reckoned with in mainstream banking. Furthermore, it should encounter none of the problems about competition that have ensnared Lloyds TSB's bid for Abbey National. Halifax's 19% share of the mortgage market will increase slightly but it has no presence in the small business market which is worrying the competition authorities. Neither bank operates many branches on the other side of the border, so rationalisation of the branch network should be limited.

For Bank of Scotland, which had formerly tried to take over first NatWest and then link up with Abbey National, a merger also makes much sense. The Scottish bank is highly regarded for its skills and efficiency in personal and business banking. But its scope to expand has been limited by the size of its home market. The bank has responded by providing banking services for Sainsbury's Bank, in which it has a 45% stake. But the merger provides a vehicle to use its expertise across the border on a grander scale.

Deregulation and new technology are making Britain's banking market more competitive. That's why there is so much merger activity going on. New entrants like Egg can use the Internet to crack open a market once closed to them by the barrier of the branch networks. The prospect of a single European financial marketplace is looming. Further consolidation remains likely—and counter-bids cannot be ruled out.

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Canvassing the politicians

Apr 26th 2001
From The Economist print edition

THE imminent general election promises to be one of history's dullest, but at least Tony Banks, chairman of the House of Commons Works of Art Committee, is trying to liven it up. His committee has just appointed the country's first ever official election artist. Mr Banks, a left-winger better known for his love of football than for his fondness for fine arts, said: "It just occurred to me that we have war artists, so why not have an election artist?" Does he know something about the election campaign that the rest of us don't?

Mr Banks has chosen Jonathan Yeo, a self-taught portrait artist. His commissions so far include celebrities such as Ross Kemp, an actor, and Ozwald Boateng, a fashion designer. He also just happens to be the eldest son of the Conservative Party's agriculture spokesman, Tim Yeo. Does this denote some cunning plan by Mr Banks to show up the bland centrism of New Labour on the campaign trail? Not a bit of it, insists young Yeo. He says that he has no strong views on politics. But neither, he says—perhaps with the expected May Day riots in mind—is he "an anarchist, like many painters". Phew.

Mr Yeo's job is to produce three separate portraits of the party leaders, William Hague, Tony Blair and Charles Kennedy. For an undisclosed fee, he will bravely follow them around while they kiss those babies and pose on their battle buses, trying to capture the essence of their campaigning style.

So what will Mr Yeo produce? He promises something slightly "pop-arty". Painting on canvas is his preferred medium, and Lucian Freud is the contemporary artist he most admires. That might hint at the party leaders as large, fleshy nudes. But Mr Yeo does not rule out alternative media, such as installations, and even professes an admiration for Damien Hirst. So, happily for all, the scope does exist for a Hague pickled in formaldehyde, or a Blair cut into slices and stuffed with manifesto paper.

If Mr Yeo is in need of further inspiration, he could visit the Sir John Soane's Museum in London, which is currently showing an exhibition of William Hogarth's original four paintings of a fabulously corrupt election in Oxfordshire in 1754. Hogarth's paintings were too honest for some, with one contemporary magazine complaining of the "very many disgusting, if not depraved exhibitions of human nature" on display. So he got it about right.

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Crime

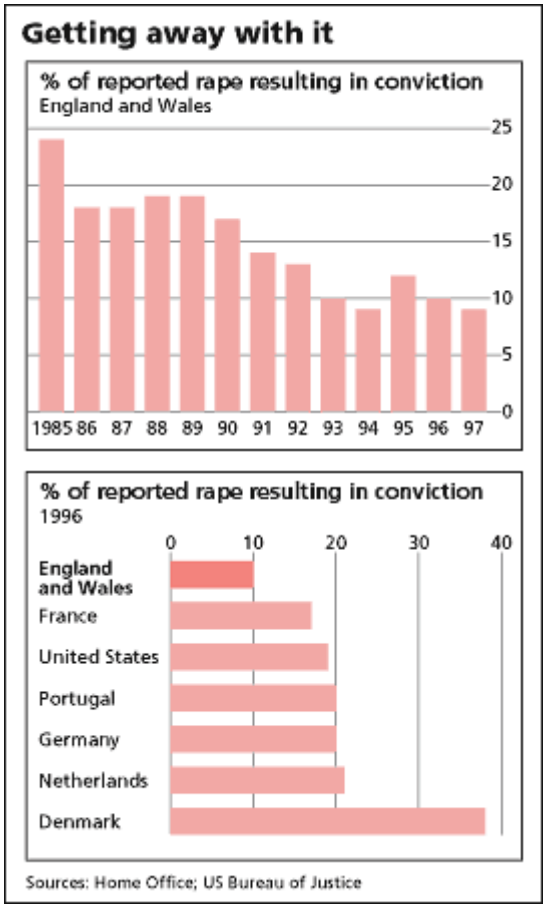
Rapist's charter

Apr 26th 2001
From The Economist print edition

A change in the law might solve the problem of Britain's falling conviction rate for rape

"DO I really put this nice bloke from the students' union into prison for this for rape when, you know, they were both drunk as skunks?" This police officer encapsulated the problem with which ministers are now wrestling. They are currently considering a consultation paper from the Home Office on sex offences that focuses on what Britain can do about its falling—and, by international standards, low—conviction rate for rape.

Every day, 21 women, on average, complain to the police that they have been raped. Over the past decade, the number of recorded rape offences has tripled to nearly 8,000 last year.



Apart from murder, rape is the crime that most horrifies the public. Yet since 1985, convictions for rapes reported to the police have fallen from 24% to 9%. Because many women who have been sexually assaulted refuse to go to the police, rapists have a good chance of getting away with it.

The central problem is that the number of cases involving acquaintances has doubled in the past decade. In more than three-quarters of cases now, the alleged rapist knows his victim. Most people—including juries—do not regard "date" rape, particularly when the defendant has had a previous sexual relationship with the victim, as among the worst crimes. Yet the law does. Only murder and attempted murder attract higher sentences than rape.

As a result, juries are often unwilling to convict "date" rapists. A Crown Prosecution Service lawyer says that juries in those sorts of cases tend to conclude: "Sorry, we're not going to send this guy to jail for seven years because the woman, you know, met him and went with him quite willingly."

Another problem is that, given the availability of DNA evidence these days, the defence usually centres on consent. So cases often come down to one person's word against another—and juries are understandably unwilling to convict on that basis.

The belief that there are different types of rape, of differing degrees of seriousness, is not confined to juries. A Home Office study on rape published in 1999 quotes a judge as saying: "I wonder whether the serious type of rape of a stranger in a public place or whatever at night should not be a rather separate offence than a misunderstanding between two people who know each other."

The Home Office's review committee rejected this view unanimously. It opposed any gradation of rapes into more and less serious offences, claiming that rape by an acquaintance was likely to be just as traumatic as rape by a stranger. It added that the betrayal of trust involved in "date" rape could cause further long-term psychological damage to the victim. Although the committee devoted much time to the attitude of victims, it did not take into account the public's perception of rape. Since the public makes up the juries, this seems a curious omission.

Confidence in the committee's judgment is not helped by one of its wilder fantasies. Its recommendation that a new offence should be created to deal with women "who compel men to penetrate them" is odd,

even by the standards of politically correct governmental committees. The committee goes on to condemn such female misconduct as “a serious assault on the man’s sexual autonomy”. In ten years, one case has been reported which might fit this category.

Other countries take a more nuanced view of sexual offences. That may be why their conviction rates are generally higher than Britain’s. Canada has three tiers of sexual offences. Some American states, such as Michigan, have created a complex gradation scheme which rates criminal sexual conduct in the first, second, third and fourth degree. Harder for juries to get their heads around, perhaps, but a better reflection of the complexity of real life.

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Israeli settlements and the Palestinian uprising

Apr 26th 2001 | EAST JERUSALEM
From The Economist print edition

The Palestinians' precondition for a ceasefire is a freeze on settlements

Get article background

Reuters

DESPITE being written off as stillborn, the peace plan presented last week by Egypt and Jordan, and approved by Yasser Arafat, still flickers with vestiges of life. Ariel Sharon's instinct was to dismiss it out of hand but on April 22nd, perhaps chastened by his ticking off from America for sending tanks into Gaza, Israel's prime minister described the plan as "important"—so long as its content were "changed somewhat". Shimon Peres, his foreign minister, is to discuss such changes with both Egypt and Jordan.

The plan calls for a series of confidence-building measures, including the renewal of Israeli-Palestinian security co-operation and the lifting of the siege in the West Bank and Gaza. All this is designed to beat a path back to political negotiations. But, for Palestinians, the most important confidence-builder in the plan is its call for a "total and immediate freeze on all settlement activities, including those in East Jerusalem". This is also, presumably, one of the clauses that Mr Sharon will try to get changed. But if there was one thing above all others that undermined the Palestinians' trust in the Oslo peace process, it was Israel's policy of building and expanding settlements.

During Oslo's seven-year era, the number of settler houses and flats grew by 52%, swelling the settler population in the West Bank and Gaza from 115,000 in 1993 to 200,000 in 2000. These figures do not include the 180,000 settlers who live in occupied East Jerusalem. "With the removal of the army from cities, settlements became the Palestinians' first-hand experience of the occupation," says Menachem Klein, an Israeli political scientist who served as an adviser to Ehud Barak's government. "And what they saw was their expansion on every hill-top."

Thus, when the Oslo accords were engulfed by the flames of the *intifada*, the firing line was in or near the settlements. In the seven months of the latest uprising, Palestinians have launched mortar attacks on the settlements in Gaza, have fired machineguns at settlements, such as Gilo, in East Jerusalem, and have ambushed vehicles on settler roads in the West Bank. Of the 43 Israeli civilians who have been killed since October, about half have been settlers.

Palestinian militants justify these attacks as a way of "deterring" ordinary Israelis from settling on the land that the Palestinians see as their future state. By that measure, the Palestinians can claim that their strategy seems to be working. In September 2000, Har Homa, a new settlement on the southern end of East Jerusalem, had been partly built, with 2,300 apartments on the market. But by April 2001, only 650 of these flats had been sold, a downturn in demand that corresponds to the upsurge in armed revolt.

But though fighting may deter buyers, it does not stop construction. According to Israel's Peace Now movement, there are now 6,000 housing units being built in the occupied territories. In March, Israel's Jerusalem municipality approved the construction of another 2,832 new houses at Har Homa, despite the vacancies in its existing stock. In April, Israel's Housing Ministry tendered 496 houses at the mammoth settlement of Maale Adumim, despite the 1,610 units still unsold there. Both Har Homa and Maale Adumim are settlements with strong political underpinning, whose status remained stubbornly

unresolved in the “final-status” talks with Mr Barak.

Palestinians have more immediate reasons for wanting a freeze. In the first week of April, the Israeli army demolished 25 Palestinian houses in the West Bank, and issued orders for the razing of 19 in East Jerusalem. In all these instances, says the army, the houses were built without permission.

But the Palestinians argue that the houses in the West Bank were removed because they were preventing a widening of existing Israeli settlements, and that at least some of the houses in East Jerusalem were marked for destruction because they lay athwart plans for yet another new ring road round the city. These roads are designed to lock Israeli settlements in an urban grid, and to sever Palestinian villages in the municipality from their West Bank hinterland.

If only there could be a settlement freeze, say thoughtful Palestinians, Mr Arafat could sell a ceasefire to his people without incurring the charge that the *intifada*, and the 400 Palestinian lives it has so far claimed, have been in vain. “We can have negotiations,” says Marwan Barghouti, one of Fatah’s foremost West Bank leaders, “but we cannot have a situation where we negotiate on the one hand and Israel builds settlements on the other. Those days are over.” Without a freeze, nationalists and Islamists seem determined to fight on. But the refusal of Islamists to distinguish cities inside Israel from settlements outside risks turning a national conflict into ethnic-religious carnage.

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Jabs for babies in hot poor places

Apr 26th 2001 | CAIA, MOZAMBIQUE
From The Economist print edition

UNLIKE the diseases they thwart, vaccines do not travel well. From the moment they are created until they are thrust into bawling babies' arms, most vaccines must be kept cold. If not, they spoil. In rich countries, this presents few problems. Phials of vaccine leave the factory in a refrigerated truck, travel along smooth roads to a pharmacy, and are shoved into another fridge. But keeping the "cool chain" intact in hot poor countries is much harder.

Take, for example, the vaccines dispensed at a camp for flood victims near Caia, a hamlet in central Mozambique. The camp's inhabitants were poor before swollen rivers destroyed their houses in February. Since then they have lived on donated food, under plastic sheets. But their children are now being immunised.

The vaccines come with difficulty. They cannot arrive by rail from the port of Beira because the railway bridge at Caia is still collapsed, having been twice blown up during the country's civil war. So they are flown from Europe to Maputo, Mozambique's capital, in cool boxes. They are then swiftly transferred to a smaller plane, and flown to a rough airstrip near Caia. There they are loaded on to a small truck, and raced to a clinic. Large sections of the roads were washed away by the floods, and if drivers swerve into the bush to avoid the deepest potholes, they risk hitting a landmine. Eventually, the vaccines are tucked away in a kerosene-powered fridge—electricity comes only fitfully to Caia.

Given such problems, it is no wonder that so many children round the world are not immunised. By one estimate, a child dies every ten seconds from a disease that could have been averted by vaccination. By another estimate, every $300 spent on vaccination saves a life. As recently as 1974, only 5% of children were immunised against the six main vaccine-preventable diseases: polio, diphtheria, whooping-cough, tetanus, measles and tuberculosis. By 1998, 74% were getting a jab. The challenge is to protect the last quarter, almost all of whom live in poor countries.

A donation of $750m from the Bill and Melinda Gates Foundation helped to kick-start a group called the Global Alliance for Vaccines and Immunisation (GAVI) in 1999. Other donors chipped in, and GAVI has moved swiftly to get more babies jabbed. Poor countries with inadequate immunisation apply for help. Of the 74 countries GAVI deems poor enough, a third have so far received pledges of help. The first consignment of GAVI vaccines arrived at Caia on April 6th.

To qualify for help, countries must show that they are eager and competent to run vaccination programmes. They receive vaccines and logistical help up front, and are rewarded if they raise the proportion of children immunised. If they make a mess of things, support is withdrawn.

How countries achieve the targets is up to them, but GAVI spreads word of ideas that work. One such is syringes that can be used only once. In Africa, improperly sterilised needles can make hospitals as risky as brothels, but merely telling people not to use needles twice is not always enough. However, syringes with plastic ratchets that stop the plunger from being pulled back twice are foolproof, and cost only a few cents each.

Other good ideas include the use of combined vaccines. Delivery of vaccines can be made more reliable by devolving responsibility to local government, or by hiring private courier firms, which has worked well in Zimbabwe and Burkina Faso. For vaccines that do not need refrigeration, it may be possible to hitch a ride on Coca-Cola trucks, which reach places not even marked on maps. Most importantly, because GAVI buys lots of vaccines over several years, it can demand low prices.

War is a hurdle. Foreign health workers hesitate to work in Angola or Congo for fear of violence. Natural

disasters are simpler to tackle. Mozambique's floods were awful: food became so scarce that dogs were stealing maize husks. But because so many country people were assembled in camps, it was easy to vaccinate them. And nurses handed out plastic wallets for immunisation cards, so that they will not get wet come the next inundation.

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South Africa

Trouble, trouble

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From The Economist print edition

JUST as the South African government was enjoying victory over the 39 international drug companies that had gone to court to protect their intellectual-property rights, it found itself grappling with two nasty embarrassments in the bosom of the family. The first concerned an alleged plot in the ruling African National Congress to oust its leader, President Thabo Mbeki. Three prominent ANC members—one of whom, Cyril Ramaphosa, had been Mr Mbeki's main rival in the succession to Nelson Mandela—were said this week to be under investigation by the police, though for what was not clear. But with Mr Mbeki himself speaking of conspiracy, it was all too apparent that the senior reaches of the ANC were in disarray.

The other embarrassment concerned the intensification of long-running accusations of corruption. It all began last year, when Tony Yengeni, the ANC's chief whip, boasted that in his Mercedes it "feels as though you're flying in a jet." He may now be wishing he had kept quiet. Laborious digging by the *Sunday Times*, a local newspaper, revealed that the car was originally ordered as a staff car by a company that benefited from an arms deal with the government last year. Mr Yengeni denies any wrongdoing, saying that he bought the car himself. The *Sunday Times* alleges that he started paying for the car only after rumours began to circulate that he had received it as a bribe.

The scandal over South Africa's arms procurement grows by the day. One of the companies involved, EADS, admitted this month that it had "rendered assistance to approximately 30 VIPs in the past three years in obtaining vehicles." Opposition members of parliament allege that the arms deal, worth some 50 billion rand ($6 billion) all told, was marred by backhanders.

The government's response has been to stall, bluster and accuse its accusers of racism. The senior ANC member of the parliamentary committee that oversees public spending, who called last year for an investigation into the arms deal, was purged in January. A probe is proceeding, but the most effective watchdog, the Special Investigating Unit, has been excluded.

Was Mr Mandela exaggerating when he lamented last month that his people, when they got the chance, turned out to be "as corrupt as the apartheid regime"? Comparison with the old days is tricky, because the new government has set itself higher standards. And, by regional comparison, South Africa does not seem particularly corrupt. Ordinary South Africans are not bombarded with demands for bribes by policemen and customs officers. The cabinet is not stuffed with crooks, and there is no suggestion that Mr Mbeki is anything but clean. But at lower levels, graft appears common.

Money often seems to vanish from the coffers of provincial governments. In the Eastern Cape, for example, one of the poorest of South Africa's nine provinces, ten out of 14 provincial departments, responsible for 97% of the budget, failed to submit proper accounts for 1998-99 to the auditor-general. This failure was largely due to a lack of qualified accountants, a national problem. But such laxity creates opportunities for light-fingered bureaucrats.

South Africa has excellent regulations on the probity expected of public employees. But enforcement is feeble. After a tip-off from a bank, a senior member in the accounts division of an Eastern Cape department was arrested in 1996 for allegedly embezzling 1m rand. But the case was dropped and the woman in question kept her job.

The government's policy of "affirmative procurement" complicates matters. Public-works contracts are not supposed to be awarded simply to the best bidder. Preference must be given to black-owned firms. Furthermore, the fact that white-owned firms need black partners to win government business tends to enrich those with ruling-party connections. Perhaps this is inevitable. White firms look for educated, articulate black partners. Even so, it grates that senior officials so rarely seem embarrassed by apparent conflicts of interest.

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Ghana

Model country loses marks

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From The Economist print edition

The new government faces an economic mess

THE brief arrest on April 16th of Victor Selormey, a finance minister in the Ghanaian government that was defeated in December's election, was not unexpected. Most incoming governments are swift to blame their predecessors for all ills. Indeed, in opposition, John Kufuor had persistently criticised government corruption. And when he took over in January, he found the books, and the economy, in a horrible mess.

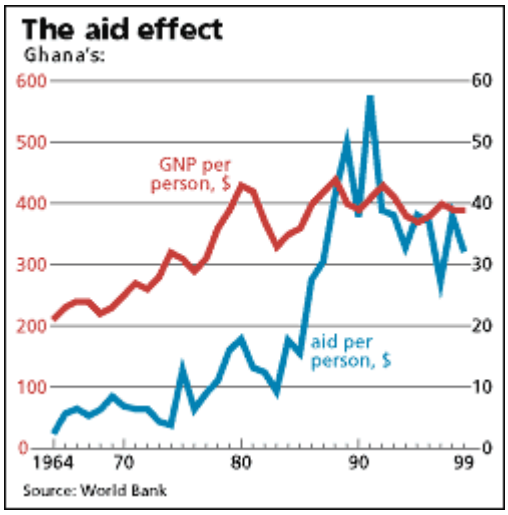
Reuters

Can Kufuor do better?

Mr Selormey, who was detained for a short time only and has not been charged, seems to have been arrested in connection with some allegedly illegal business last year, involving the transfer of $2.5m to a company that is said not to exist. A former trade minister and two officials have also been questioned. But Ghanaians might well have expected more arrests by now: the country's lively media have been busily happy exposing corruption in high places.

Mr Kufuor has good political reasons for moving cautiously. His predecessor, Jerry Rawlings, had been in power since 1981 and the upper tiers of the police, army, security services and parts of the civil service were built round personal loyalty to the president. No one was sure how the changeover would go. So far it has been smooth. Mr Kufuor has replaced the most senior officials with his own supporters. But digging into past misdeeds and sorting out Ghana's finances could yet stir danger.

The Rawlings regime began as a populist radical movement set on stamping out corruption and imposing strong central control. But Ghana's economic destitution forced it to obey the aid donors' demands for free-market reforms. Mr Rawlings switched direction and aid poured in. By the end of the 1980s, Ghana was being declared a success story and held up as a model reformer.

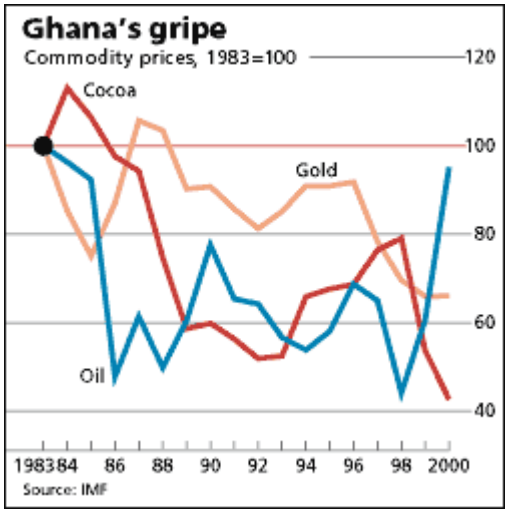


But in the 1990s reform got bogged down in the thickets of privatisation. The government found itself having to dismantle or sell off state-owned companies and institutions in which the ruling party's members and supporters had vested interests. The much-promised diversification to reduce the country's dependency on gold and cocoa exports never happened.

By the time of the December election, high oil prices, combined with low cocoa and gold prices, were costing the country millions of dollars. Unwilling to make voters pay the full price of fuel, the government paid half of it, a subsidy that cost about $25m a month. To cover this, the government borrowed wildly, raising interest rates to 50% and sending inflation as high as 40%.

It then tried to maintain confidence in Ghana's currency by preventing people from swapping their cedis for dollars. But this measure, by creating a dollar black market, had the opposite effect: last year the cedi lost more than half its value. A generous pre-election 20% pay rise for civil servants meant even more borrowing, and the government now spends over a third of its revenue on servicing its domestic debt. Another third goes on servicing foreign debt.

In February the new government took the tough decision to raise the price of fuel by 64%. Since almost everything that is bought and sold in Ghana is affected by the fuel price, this has added about 10% to the inflation rate. The government has also frozen spending, and loosened restrictions on the currency, allowing it to stabilise. In addition, it has reviewed the privatisation programme, creating a special ministry to assist the country's private sector.



Mr Kufuor's most controversial measure has been to accept the Highly Indebted Poor Countries (HIPC) arrangement with the IMF and World Bank. This will give Ghana relief on its $5.8 billion foreign debt. Good idea, and why wasn't it done before? outsiders may ask. The answer is that Ghanaians are a proud lot. Seeing the arrangement as an admission of failure and a declaration of bankruptcy, they protested so loudly that the government, though still going ahead, was obliged to issue an apology. The more worldly-wise also pointed out that Japan, Ghana's biggest aid donor, would not lend to countries that have received HIPC debt relief.

Mr Kufuor's government blames its predecessor for the pain. But some Ghanaians ask why the IMF and the World Bank allowed their prize pupil to create such havoc.

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A kinder, gentler gorilla?

Apr 26th 2001
From The Economist print edition

To the casual observer, Microsoft seems to have changed its ways. Closer inspection shows that it remains a heavy-handed monopolist

Get article background

THREE things have changed for Microsoft, the world's biggest software company, since it was declared an "abusive monopolist" and ordered to be split in two by Judge Thomas Penfield Jackson last year. After an appeals-court hearing in February, which went well for the company, the threat of break-up seems to have receded. Second, Microsoft has devised a new strategy, called .NET, under which it will try to recast itself as a provider of Internet-based software services rather than PC-based products, and thus grab a large share of the potentially vast new market for "web services". And third, even though its profits and share price have held up far better than they have at technology companies that depend on hardware sales or telecoms-equipment orders, Microsoft has been doing its best to seem to have abandoned its old monopolistic behaviour.

It is not that Microsoft admits any wrongdoing in its antitrust case, you understand. But it has twigged that good behaviour may undermine Judge Jackson's contention that it is predatory and untrustworthy—and might encourage the appeals court to overturn his ruling. Playing well with others also fits with Microsoft's new software strategy, which, unusually, depends heavily on open (rather than proprietary) standards and on co-operation with other software makers. So has Microsoft really become a kinder, gentler company?

There is some evidence that it has. Take, for instance, its long-standing opposition to "open-source" software, in which the source code revealing a program's inner workings is made freely available. Microsoft has only ever made its own source code available to a handful of close allies. Last month, however, the firm announced that it would grant around 1,000 of its largest corporate customers access to 95% of the source code of its Windows 2000 and Windows XP operating systems. Unlike true open-source software, whose openness means that bugs can be more easily found and fixed, the Windows source code will be made available only on condition that it is not modified. Even so, it will help large firms to ensure that their own software works smoothly with Windows.

Another area in which Microsoft seems to have taken a step towards the co-operative, open approach of the Internet is in the development of new standards for web services, which have such quirky names as XML, SOAP, UDDI and WSDL. Microsoft is generally deemed to have been a well-behaved participant in the standard-setting process—in marked contrast to the old Microsoft, which often produced its own incompatible versions of industry standards. This time around, says David Winer, an independent software engineer who is working on the SOAP standard, the company seems to have realised that the emergence of unified standards is in its own best interests. That does not necessarily mean that Microsoft is a willing convert, however. "I think the world changed, and it's sucking them along with it," says Mr Winer.

In order to convince its rivals that it really does want their products to work together, Microsoft recently hired Dan'l Lewin to act as its ambassador to Silicon Valley, where he has worked for 25 years at several firms, including Apple and NeXT. Mr Lewin insists that, when it comes to interoperability with other firms' products and embracing open standards, Microsoft has changed. "This is a fundamental movement," he says.

Another sign of change is Microsoft's new advertising campaign, in which the company's usual po-facedness is replaced by a more humorous approach, including a hitherto unseen ability to laugh at itself. One ad pokes fun at Clippy, the annoying paperclip character that pops up to provide help to users of Office, and jokes that the XP in Office XP, the latest version of the software, stands for "ex-paperclip". For a company that never normally admits mistakes and championed the use of the word "issue" in place of "bug", this is quite a change.

No laughing matter

Yet despite all this, there are good reasons to be sceptical about Microsoft's intentions (or even ability) to reform itself. Granting limited access to the Windows source code, for example, may help to soften Microsoft's image, but it is a far cry from embracing the open-source model. Microsoft has falsely portrayed itself as the champion of open standards in the past, notably during its "browser war" with Netscape, only to revert to its old tactics later. Might the company not simply be waiting for XML, SOAP and the other new standards to take off, ask its critics, before hijacking them by creating its own proprietary versions?

Such fears were heightened last month when Microsoft announced a batch of services, codenamed HailStorm, that form part of its .NET strategy. Just as Windows provides PC programmers with access to basic functions, such as drawing on the screen or accessing the network, HailStorm will provide similar "building block" functions (e-mail, instant messaging and so on) for programmers to incorporate into the software for their web-based services.

The idea is that users will sign up with Microsoft for HailStorm services and pay a monthly fee; this will enable them to use web services that rely on HailStorm's building blocks. Microsoft hopes that this will make .NET an attractive platform for programmers, and thus encourage them to adopt .NET rather than the approach based on Java, a programming language that is being promoted by Microsoft's rivals, chief among them Sun Microsystems. Already, American Express, eBay, Expedia and Groove Networks have all announced plans to build .NET web services using HailStorm.

What is worrying, however, is that HailStorm will be closely integrated with Windows XP, the next version of Windows, so that once a user has logged into Windows no further action is required to make use of HailStorm services. Indeed, the log-on and registration systems for Windows XP and HailStorm will be the same. Microsoft will, in other words, be able to turn millions of Windows users into HailStorm users, and to offer programmers an enormous potential audience for .NET web services. Similarly, by funnelling millions of users into HailStorm from HotMail and MSN, its Internet properties, Microsoft may be able to sign up as many as 100m HailStorm users by the end of 2003. The firm thus has a golden opportunity to exploit the dominance of Windows to ensure that .NET takes off. It is, as one analyst puts it, "vintage Microsoft".

The company is up to its old tricks in other ways, too. Windows XP contains several new functions, including media-playback and remote-troubleshooting features, that previously required the purchase of additional software. Makers of such software may now face the same fate as Netscape—Microsoft can extinguish them whenever it chooses.

Windows XP also includes the latest version of Microsoft's music and video player, Windows Media Player 8, which will not work with previous versions of Windows. As well as encouraging users to switch to Windows XP, it contains a new music-compression format called WMA, which is being positioned as an alternative to the popular MP3 format. Microsoft argues, with good reason, that WMA has several technical advantages over MP3, including smaller file-sizes; but the fact remains that Microsoft is using the clout of Windows to promote its own playback software and music format. The parallels with the Netscape case, in which Microsoft used Windows to promote its web browser, are ominously clear.

In short, it is hard to avoid the conclusion that, if Microsoft has changed at all, it has done so only superficially. Inside the software industry's 800-pound gorilla, the heart of an incorrigible monopolist beats still.

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Investment in Australia

Shell shocked

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TO MANY Australians, the vast oil and gas deposits off the coast of Western Australia have come to symbolise what the lucky country is all about. In an age of shifting economic fortunes, the north-west shelf, as the region is known, is viewed as a bedrock of Australia's future. When Royal Dutch/Shell, a partner in the consortium developing the region, launched a takeover bid late last year for Woodside Petroleum, the project's Australian operating company, the federal government, led by a market-friendly prime minister, John Howard, was expected to approve it. But on April 23rd the government stunned the markets and almost everybody else when it rejected Shell's offer as "contrary to the national interest".

The north-west shelf, stretching almost 2,000km from Karratha to Darwin, contains Australia's—and one of the world's—richest resource deposits, which could eventually become the country's biggest export earner. It already exports liquefied natural gas to Japan, supplies gas to Western Australia and pumps oil. But it is located in one of the world's most remote areas, and needs huge investment to develop its deposits fully, on top of the A$9 billion ($4.5 billion) already invested in the project. Shell's A$10 billion bid for Woodside would have given it a controlling interest in a consortium that already includes BHP, an Australian company, Britain's BP, Chevron of America, and Mitsubishi and Mitsui of Japan.

When Peter Costello, the finance minister, rejected Shell's offer, he alluded to the company's big gas projects elsewhere, and suggested that it would not be in Australia's interests to have decisions on its biggest resource field made by a company with competing interests in other parts of the world. But was this the full story?

It was certainly a strange response from a government that has made open markets and deregulation the hallmarks of its economic management. It was also the first time a big foreign takeover in the energy industry had been turned down. Australia is still mainly a resource-based economy, with only limited domestic capital because of its low savings. Governments have always taken the view that Australia needs all the foreign investment it can get to unlock its natural riches. As Mr Costello was quick to point out, in an effort to mollify his critics, less than 3% of foreign-investment applications have been refused over the past four years, most of them involving property.

The Woodside project, however, had become caught up in a fierce political debate over foreign ownership. In recent years, Australians have seen many of their corporate gems taken over by foreign firms. BHP itself, once known as the Big Australian, is involved in a merger with Billiton, a British-based rival, that could see BHP's headquarters eventually move from Melbourne to London. The bid for Woodside was seized upon by economic nationalists, who painted the company as yet another local victim of globalisation. Last month, a group of politicians wrote to Mr Howard urging him not to let Australia become a "branch-office economy", and predicting that approval of the Shell bid would spark an anti-government backlash.

Much as Mr Costello denied that politics had anything to do with his decision, it is hard to conclude otherwise. As opinion polls have turned against the government, it has scrambled to regain popular support by ditching several policies on which it staked its claim to responsible economic management. It now seems to have added foreign investment to its list. The decision may win Mr Howard more votes in the general election due later this year, but it has upset financial markets and sent a confused signal to other investors. It is not just Shell that has lost out, but the economy as a whole.

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Mobile telecoms

Emergency calls

Apr 26th 2001 | PARIS
From The Economist print edition

AS BAD news flows thick and fast, it has become clear that a vicious shake-out is under way in the global telecoms industry, led by the mobile operations on which dozens of companies have staked their futures. Many will want to forget April 24th, a black Tuesday that saw a string of announcements typifying the problems faced by operators and manufacturers alike:

• In Japan, NTT DoCoMo, the wireless arm of NTT, postponed the commercial launch of its third-generation (3G) mobile network from next month until October. It said the system needed further tests before it would be robust enough. The blow is to DoCoMo's prestige rather than its profits, as the firm is still reckoned to be a leader in 3G technology. But the news worried heavily indebted rivals that have looked to DoCoMo to show that 3G can be made to work.

• Germany's Deutsche Telekom announced a first-quarter net loss of *euro*400m ($369m), and said that it had shifted its focus away from acquiring new mobile customers towards making more money from existing ones. T-Mobile, its wireless arm, made pre-tax profits of *euro*590m, almost 70% more than in the same period last year, and has just won approval to merge with VoiceStream, an American mobile firm. But Telekom remains in trouble. It is shackled with *euro*57 billion of debt and would like to float T-Mobile, but market conditions are too awful.

• Motorola, an American mobile handset and equipment manufacturer, said it was closing its biggest factory in Britain, with the loss of more than 3,000 jobs. It blamed a sudden collapse in demand for mobile telephones and may have to hand back almost £17m ($25m) in state aid. Other equipment makers are having a torrid time, too. JDS Uniphase, a market leader in fibre optics for high-speed telephony, announced a $1.3 billion loss for its third quarter and said it would cut its workforce by a fifth.

• Lastly, Ericsson of Sweden, the world's third-biggest maker of mobile handsets, announced a joint mobile-phone venture with Sony. The new business, which will be launched in October, aims to develop new mobile consumer brands and to become a long-term global competitor.

In normal times, Ericsson's deal might have looked like the only piece of good news on an otherwise miserable day. But it came almost immediately after the company had announced a big retrenchment and 12,000 job losses. In the first quarter of this year, it made a SKr4.9 billion ($502m) pre-tax loss, and it admitted that its mobile handset business is looking shaky. Its shares are worth around 70% less than they were a year ago, and have fallen by more than one-third since the beginning of March.

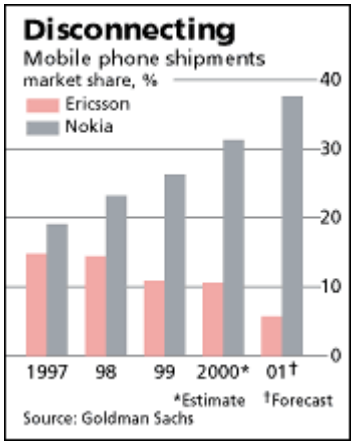
So it is hardly surprising that Kurt Hellstrom, Ericsson's chief executive, looked subdued at the press conference to announce the tie-up with Sony. He is paying a heavy price for having missed the strategic shift as mobile phones became trendy consumer goods rather than purely functional items. Ericsson underinvested in design and has been eclipsed by niftier rivals, notably Nokia of Finland.

Thus, the deal with Sony is better seen as a measure of how quickly Ericsson has fallen from grace. It has conceded 50% of the venture to the Japanese, even though it is far bigger, selling 43m phones last year against Sony's 7.5m. In an industry that moves quickly, the new venture will produce its first products only some time next year. Mr Hellstrom might no longer be the boss by then.

All over the industry there are clear signs that the telecoms boom has ended. Dramatic retrenchment by top-notch competitors may look panicky, but the truth is that most have little alternative. As the mobile sector has matured, its growth has inevitably begun to slow, leading investors to question the prospects of traditional operators that have placed huge bets on mobile technologies. Not only have capital markets become choosier about telecoms-related financings, but weak equity markets have made it almost impossible to float off mobile ventures and pay back debt. The knock-on effect for

mobile-handset manufacturers has become all too evident—not least because they have had to provide billions of dollars in “vendor financing” so that mobile-network operators can continue to buy their products.

A rare bright spot is Nokia, the world’s biggest mobile maker. Its first-quarter results were better than expected and its share of the global handset market is edging up towards 40% as Ericsson’s falls (see chart above). So are its shares doing well? Relatively, yes: they are a mere 40% below their level of a year ago.



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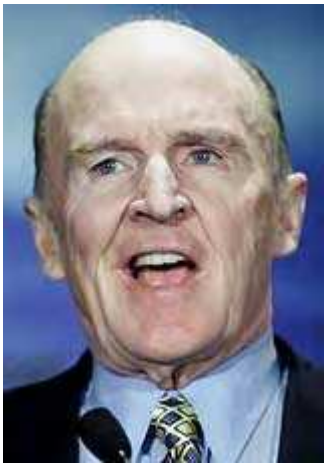
Splitting heirs

Apr 26th 2001
From The Economist print edition

AS AN example of the perils of life as heir-apparent to a powerful chief executive, consider the career of Lee Iacocca. Having been one of three successors pushed out by Henry Ford II because he did not want a number-two shadowing him, Mr Iacocca in turn stayed on at Chrysler to frustrate his obvious heir's ambition to succeed him. Being the designated successor of a powerful boss has always been an uneasy position. No wonder new research* on succession in large American companies suggests that, for every two heirs who make it to the top, one leaves early; and that heirs depart notably more often than their bosses.

Reuters



Get that Dolly guy now

The study, by Albert Cannella of Texas A&M University and Wei Shen of Rutgers University, appears in the current issue of the *Academy of Management Journal*. It looked at 168 randomly selected large manufacturing firms, and identified 128 heirs-apparent as people who held the title of president or chief operating officer and were at least five years younger than incumbent CEO. Of the heirs, 65 were promoted in the decade covered by the study, and 31 left. The rest were still waiting.

The main reason for an heir's early departure, argues the study, is the power and influence of the chief executive. If the person at the top has been there a long time, owns lots of company stock and combines the role of chairman as well, the successor is less likely to be promoted, and his promotion is likely to be slower. Choosing a successor gives incumbent chief executives a chance to shape their legacies but "it also confronts them with a reminder of their own mortality", say the authors.

So tough bosses invariably seem to dislike the process. Even at GE, a company much praised for its orderly succession strategy, Jack Welch quashed discussion until the late 1990s, then postponed his departure. "The qualities that make someone a great CEO are seldom compatible with the qualities that promote smooth succession planning," says Nell Minow, an expert on corporate governance who recently worked on a report on succession for the National Association of Corporate Directors. She recalls one director telling of how his boss's official succession policy was "I'm not going to die". Another boss described his approach as "to find that guy who did Dolly the sheep".

* "So Near and Yet So Far: Promotion Versus Exit for CEO Heirs-Apparent."

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Face value

A Maverick in more ways than one

Apr 26th 2001
From The Economist print edition

Armed with a dotcom fortune and some bold marketing ideas, Mark Cuban has shaken up a struggling American basketball team. His success holds lessons for managers everywhere

TIMES are tough for America's National Basketball Association (NBA). Television ratings have tumbled this year, attendance figures have flattened out after four years of growth, and an old-boy culture in the ranks of team owners has started to grate with young players' egos. But a refreshing bright spot has emerged, in the person of Mark Cuban.

Mr Cuban bought the Dallas Mavericks, a struggling Texas team, for $280m in early 2000. The team was not really for sale, but Mr Cuban had just reaped $2 billion from the sale of Broadcast.com, his online media firm, to a bigger Internet outfit, Yahoo! It took six months to persuade Ross Perot Jr, who had bought the team for $125m in 1996, to sell. A longtime Dallas resident who says he only does what he enjoys, Mr Cuban fancied the idea of making the local team—a perennial loser of games and no cash cow—both profitable and successful on the court.

His strategy for the Mavericks has three facets: rebranding, promotion and treating his staff well. He began with a new team logo and an edgy television commercial, starring a rabid rottweiler, to build excitement before the 2000-01 season. To raise the hipness quotient, he hired Tim Henning from Vans, a maker of skateboarding shoes and clothes, as the team's new merchandise director, and started to sell logo-bearing goods in shops outside the arena, including a new line of women's clothing.

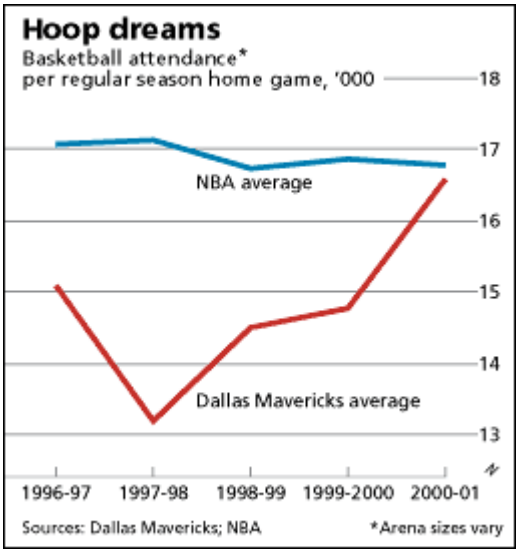
Once his first full season in charge was under way, Mr Cuban brought in scores of new salesmen, and new promotional techniques to help them hawk tickets. The more successful among these include free seats for fans who paint their faces and bodies; free fast food from Taco Bell for everyone in the stadium whenever the Mavericks score 100 points; and post-game concerts by such crowd-pleasers as K.C. and the Sunshine Band. Other ideas, such as an in-house disc jockey and an "Elvis night" replete with impersonators, have failed to catch on.

The occasional failure is not too surprising, since the whole marketing game is new to Mr Cuban. He did not spend a single cent on advertising in the five years that he owned and ran Broadcast.com. Some of his more creative marketing wheezes come from the team's fans, who contact him via its website. (Posting his e-mail address there has led to reams of requests for venture capital.) He also travels to other arenas and takes cues from the likes of the World Wrestling Federation. His business, he says, is "selling sore throats". Stealing ideas and then executing them is his mantra.

In part, Mr Cuban's marketing push is a side-effect of the players he has hired. With young stars from Canada, Germany, Mexico and Nigeria, as well as the first player ever to join the NBA from Communist China (whose debut provoked a standing ovation during the spy-plane crisis), the Mavericks lead the league in international flavour. Fans bring flags from the players' home countries to games. The NBA, which controls all its teams' merchandise sales abroad, hopes to create a global brand for the Mavericks—a status previously reserved for teams packed with expensive superstars.

Mr Cuban has also distinguished himself from other team owners in the way that he treats his workers. He claims to like spreading the wealth, and it is hard to argue: 300 of his 330 employees at Broadcast.com became millionaires after its sale. At the

Mavericks, all staff members receive free car washes, massages and tickets for games. Workers also enjoy unusually free access to their boss. The Mavericks' organisational structure is flat, with few hierarchical job titles; Mr Cuban claims to have tried his hand at virtually every job there, no matter how menial, for at least a few hours.



The team itself also gets special treatment relative to others in the NBA. Mr Cuban has had each player's locker refurbished with a flat-screen television, a stereo and a videogame system, not to mention plush towels. Ergonomic, adjustable seats with antibacterial upholstery (patent pending) now cradle the Mavericks' backsides along the sideline, while the opposition's rest on cheaper folding chairs.

Mr Cuban says all these changes have cost him less than 0.5% of his team payroll—a small price to pay for the positive mindset that he has engendered among the players, some of whom were previously thought to have attitude problems. His team-management style also differs from the norm. He likes to think of his players as a bond portfolio, with their skills as interest rates and their contract lengths as maturities. He justified a controversial trade of several young players for an established scorer by saying that he had shortened his maturities at a cheaper price without much change to total performance in games.

This spring, Mr Cuban seems to be reaping his rewards. The Mavericks sold more tickets for this season, before it had even started, than they sold for all of last season. The number of season-ticket holders has doubled, and attendance revenue is up by 80% over last year. Last month, the team completed a string of 20 sell-outs for the first time in six years. Although Mr Cuban prefers to keep the financial details private, he claims that he has already made a substantial return on his investment. And the Mavericks have ended a decade-long drought by winning through to the championship playoffs.

Along the way to his success, Mr Cuban has not made many friends among the NBA's other owners, whom he calls "counterpunchers", afraid to be proactive. The league's commissioner has fined him a total of $505,000 this season, for criticising referees, getting involved in an on-court fight and even for sitting on the floor next to his coaches. He has no regrets, however. As the team's biggest and best-known booster—fans bring "I Love Mark Cuban" signs to games and Dallas billboards address him by his first name—he gets more than his fair share of adulation.

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European competition law

Copyrights and wrongs

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From The Economist print edition

MARIO MONTI, Europe's competition commissioner, is not afraid of controversy—witness his tough recent stance on such mergers as EMI-Time Warner and, now, General Electric-Honeywell. Nor is he reckless, however, and that is why he might just balk at making a fundamental challenge to accepted international laws on intellectual property. These are at issue in a competition case that is causing lawyers in Brussels and beyond to scratch their heads.

The case involves the arcane but lucrative business of analysing sales information for the health-care industry. Drug firms rely heavily on such data, using it to track how products are selling and to give incentive payments to their sales staff. The underlying information is freely available. Making it useful, however, requires specialist knowledge and computer-modelling skills.

A few specialist firms dominate this activity, long since outsourced by drug makers. One of the biggest is IMS Health, an American group. IMS stands accused by NDC, a rival, of having sewn up the German market so efficiently that NDC and AzyX Geopharma, another rival, cannot compete. In the past year or so, both have tried to launch products, only to be told by would-be customers that they want something based on IMS's copyrighted system, which divides each country into neat geographical areas, known as "bricks". The spurned rivals have appealed to Brussels, demanding that IMS be forced to license its system to them so as to open the market to competition. In effect, they contend, IMS has created an industry standard that should be made available to others, albeit at a price.

When the case began last December, IMS was almost blown away by this logic, despite previous successes defending its copyright in the German courts. The European Commission threatened a severe and rarely used fast-track process that could have led to a ruling against IMS in a matter of weeks. On reflection, however, commission officials decided to slow down. They have realised that the case raises far bigger issues than at first appeared.

There is a central tension between IMS's right to exploit its copyright on the one hand and the goal of free competition and lower prices in its market on the other. Intellectual-property lawyers say that defeat for IMS, though ostensibly good for competition, would send a disastrous signal to companies of all sorts, curbing their incentive to invest and innovate in order to create valuable intellectual property. Provided it does not abuse its dominant market position in Germany, IMS should be free to benefit from its copyrighted system.

Under established competition law, IMS could be guilty if it had exploited its health-care system to ill effect in another market, much as Microsoft used its Windows operating system to distort the Internet browser market. However, IMS faces no such accusation. That is why the case has big—and worrying—implications within markets. Companies could use a finding against IMS as a precedent for attacking any strong franchise that is based on copyright, regardless of whether or not the company behind the franchise has actually abused its dominance.

The arguments look set to continue for a couple of months at least, with a much longer investigation possible. The European Commission's own legal services will play a vital role, for they must advise whether a finding against IMS would stand up in court. Then it will be up to Mr Monti to decide whether this particular war is both winnable and worth the prize.

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Industry in eastern Germany

In the tracks of the Trabi

Apr 26th 2001 | ZWICKAU
From The Economist print edition

It is ten years since the last Trabant, the car that typified East German industry, was made. The local love of car making lives on

WHEN the Berlin Wall came down, an army of East Germans chugged slowly westwards in smelly two-stroke cars. The invasion of the Trabants gave many easterners a first look at the other side, and symbolised for West Germans both their neighbours' new freedom and the dire state of the East German economy. The Trabant did not long outlast the Wall—although you still see the odd *Trabi* on the roads and the car inspires fanatical devotion in its owners. Ten years ago on April 30th, the last Trabant rolled off the production line at Zwickau, some 70km south of Leipzig.

Unstable at low speeds

These days, Zwickau is a changed place. "In 1989 it was a dark and dirty city," explains Rainer Eichhorn, the mayor. There were flecks of soot in the air which, like the river, was "stinking". Now the city centre is pretty, the air is clean and there are fish in the river. A lot has been done to clean up after the communist-era uranium industry. Many old buildings—the city escaped wartime destruction—have been restored. A novel public-transport system brings local trains into the streets, sharing space with trams. Around DM1.1 billion ($500m) has been spent improving the place.

The employment picture is brighter than it might be, too. Unemployment in the area, although high at 18.2%, is below the average in Saxony. Some 27,000 people come into the area to work every day, compared with 10,000 going out.

A prime source of these jobs is the continuation of Zwickau's car-making tradition, mainly in the shape of a Volkswagen factory that opened shortly after Germany was reunited. Just north of Zwickau, it employs 5,600 people and last year turned out around 240,000 Passats and Golfs. VW also has an engine plant at Chemnitz, a bigger city to the east. The firm reckons that it supports 36,000 jobs at suppliers in eastern Germany, some at factories next to the Zwickau plant.

The VW factory is not a descendant of the Trabant plant. That site is now owned by Sachsenring Automobilienwerk, an automotive-systems company. In the early 1990s, the place was rich in tradition but not much else. Cars had been made there since August Horch, founder of Audi, opened a factory in 1904. Ulf Rittinghaus, Sachsenring's chief executive, says that he became interested in the Trabant site after a chance meeting, and persuaded his brother Ernst, an engineer, to join him in buying it for DM10m in 1993.

The brothers had no experience in the car industry, having made their money selling plastic cups, plates and gifts for Asian airlines. "Everything was broken down," says Ulf Rittinghaus. "No building stood a chance of being used." It cost DM70m to knock the ruins down and to make the site fit to use. Luckily, with the factory came a stack of *Trabi* spare parts, which Sachsenring sold at a huge mark-up in order to bring in cash during a hard first year.

Last year was also hard. Sachsenring shed 186 jobs and lost *euro*16m ($15m), after a run of years in profit. It paid no dividend even though, unlike the majority of its peers on Frankfurt's Neuer Markt, which specialises in "growth" stocks, Sachsenring had paid something in previous years. The share price, *euro*12.80 at flotation in 1997, sank to *euro*4.50 earlier this month, but has since climbed a little.

Nonetheless, the Rittinghaus brothers, who together own around 45% of the firm, are cheerful. Despite the recent job losses, Sachsenring still employs 1,100 people in Zwickau, compared with the 285 it took on in 1993. Last year, it earned *euro*92m from the sale of most of ZMD, a semiconductor maker that it

had bought from the state government of Saxony for a nominal sum—and which had once been the pride of East Germany's technology industry. Despite the sale of ZMD, turnover in the first quarter of 2001, at *euro*73m, was only *euro*3m below the figure for the same period last year.

After the ZMD sale, the firm is concentrating solely on the automotive business, making systems for other manufacturers as well as complete specialised vehicles. VW is its biggest customer, although its share of Sachsenring's sales has fallen since the mid-1990s, when it accounted for more than half. DaimlerChrysler has grown in importance. Last year, Sachsenring bought 51% of NAW, a Swiss maker of platforms for airport buses and of municipal rubbish lorries; DaimlerChrysler owns the other 49%.

Mr Rittinghaus also hopes to produce, with a big partner, a lightweight taxi with similar dimensions to London cabs, but aimed at the continental European market. So, from *Trabi* to taxi? Maybe. For now, however, the closest relative of a Trabant on the road is arguably an armoured Mercedes limousine, customised by Trasco, a subsidiary of Sachsenring in Bremen. A bomb-proof S-class, with luxurious interior trimmings, can be yours for $850,000. Some *Trabi*.

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Japanese business ethics

Blow whistles while you work

Apr 26th 2001 | TOKYO
From The Economist print edition

WITH defect cover-ups, kickbacks, price-rigging and bribery scandals making headlines almost daily, Japan's shoddy business ethics are back in the spotlight. On April 25th, public prosecutors in Tokyo indicted Mitsubishi Motors and four of its top executives for covering up defects affecting thousands of vehicles. Over the past year, Bridgestone, Mitsubishi Electric and Sanyo Electric have also been caught hiding defects in tyres, television sets and solar-cell systems. Companies in Japan are still grappling with such basic matters as drawing up codes of conduct and dealing with discrimination. This, to western ears, sounds like a debate that should have happened decades ago.

Progress has been slow for several reasons, says Mitsuhiro Umezu of the Business Ethics Research Centre in Tokyo. Companies, particularly in sickly industries such as construction and property, have been more concerned about surviving Japan's long economic downturn than about ethical guidelines. Meanwhile, many firms are still trying to shake off the inertia left by decades of so-called "administrative guidance", in which, rather than having to think for themselves, they merely observed rules laid down by powerful ministries.

To be fair, there has been some change. NEC, an electronics group, overhauled its management and compliance systems after it was caught in a defence-equipment procurement scam involving price-rigging and kickbacks in 1998. More recently, Mitsubishi Motors' defect cover-up scandal led not only the car maker but scores of other firms to tighten their ethical guidelines as well.

Some firms have also realised that ethics manuals are useless unless they can be enforced. Two features of corporate Japan—lifetime employment and a strict seniority system—have made this much harder. The first requires staff to display unswerving loyalty not only to their company but to the team they work in. Rigid hierarchies stifle communication between different ranks and discourage workers from questioning their bosses' decisions. The result is that employees have felt unable to blow the whistle (at least openly) on unsavoury practices.

Companies such as Sumitomo Corporation, a trading house, are trying to get round this by establishing "speak-up" systems to help workers air their concerns. These internal committees, made up of several high-level executives, mostly from risk-management divisions, have pledged not to reveal a whistle-blower's identity or to punish him for speaking up. Honda Motor has a different approach. To ease communication between workers and bosses, it has stopped staff calling each other by their titles, a common Japanese practice. Thus, even its president is "Yoshino-san" (Mr Yoshino), not "Yoshino-shacho" (President Yoshino).

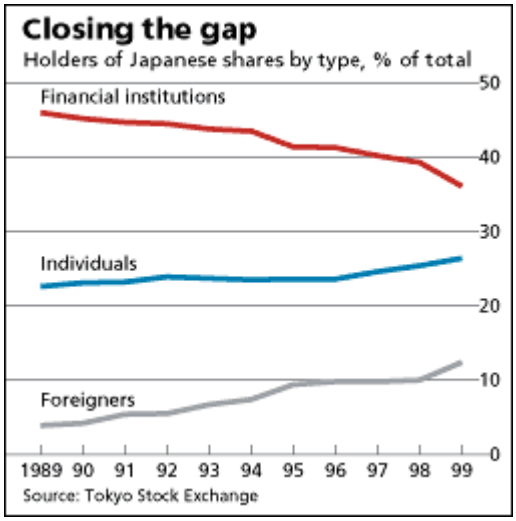
These days, however, the greatest pressure for change is coming from shareholders. Foreign shareholders have increased their holdings in recent years as traditional cross-shareholdings between banks and their corporate chums have unravelled (see chart). Unfettered by conventional ties, foreign institutions tend to be a lot quicker to dump shares in companies embroiled in scandals.

Individual shareholders are also becoming more active. Shareholder lawsuits are on the rise, jumping by 40% in the past four years—although the total number is still small by international standards. Shareholders Ombudsman, a non-profit group based in Osaka, is leading the charge. It has filed suit against the former chairman and auditors of Sogo, a department-store chain that went bust last year. It has also sued Kumagai Gumi, a debt-ridden construction company, for making ¥87m ($734,000) in political donations between 1996 and 1999—a time when the company was losing money.

Another company that has received a writ is Japan Airlines, for

failing to meet the legal hiring quota for disabled employees (1.8% of the workforce). Shareholders Ombudsman says the airline has been socially irresponsible in choosing instead to pay heavy fines for the past 20 years. Japan Airlines argues that it is hard to meet notional hiring quotas when around half its pilots, cabin crew and maintenance staff are supposed to meet strict health requirements.

What Japan lacks, however, is a big community of ethical investors, similar to those in America and Britain. Only one ethical mutual fund exists: the Asahi Life Socially Responsible Investment Fund, which uses information from private and public think-tanks to invest in listed companies that meet several ethical criteria. The fund, which was set up last September, has built up around ¥8.3 billion of assets. But it will take a lot more than that to bring Japan's more wayward bosses into line.



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Nuclear fuel

Radiating value

Apr 26th 2001 | NEW YORK
From The Economist print edition

ONLY a select few companies have avoided having their shares crushed in the current bear market, and they tend to have peculiar stories. Among the most peculiar is USEC, previously known as the United States Enrichment Corporation, which enriches uranium for reactors and once did so for bombs. A recent doubling in the company's share price has only deepened the mystery of whether its stockmarket flotation in 1998 reflects what is good about privatisations, or what is bad.

The debate over USEC has a long history. President Richard Nixon originally suggested a sale to the public in 1969. The strongest argument for this, which emerged over the next three decades, may have been the government's own poor record as an operator. One of USEC's two facilities has been officially declared an environmental disaster site, and the other is hardly free from problems. The technology used in USEC's enrichment process has not changed since its installation in the 1950s and has long been out-of-date. Freon, the main coolant used in the enrichment plants, is steadily leaking away. It cannot be replaced, however, as Freon production has been banned in America since 1995.

At the time of President Nixon's original proposal, his main concern was the continued availability of enriched uranium for national security. Ironically, the greatest concern today may be whether USEC, as a private company, is willing to do just the opposite by absorbing surplus enriched uranium from Russia. As part of its privatisation, USEC carried over a 1994 contract that means more than 40% of its supplies come from decommissioned Soviet warheads. USEC reckons it has spent almost $2 billion on the conversion of 4,500 nuclear bombs.

This would seem to be a huge success, but under the fixed-price terms of the contract, USEC claims it is paying above market rates for Russian uranium. That makes it a reluctant participant. Its efforts to win subsidies for these purchases were denied by Congress. According to an article published late last year by Richard Falkenrath, then a Harvard professor and now with the National Security Council, because of USEC's need to operate on commercial grounds, the company rejected Russian offers for accelerated deliveries of enriched uranium, missing an extraordinary opportunity to reduce the number of Russian warheads.

By early 2000, USEC's investors were no more pleased with its performance than was Mr Falkenrath. In March, just as the American bull market was peaking, USEC's shares fell to a low of just over $3, some $11 below its public offering price. The company's debt was downgraded to junk status. Profits for the year to June 2000 were $9m, down from $152m the previous year. Prices of enriched uranium plunged, partly because of stagnant demand and rising global production, but also, according to critics, because USEC may have been dumping inventory that it inherited at the time of its privatisation in order to support the dividend.

USEC's turnaround began last December. With the huge increase in the price of oil and natural gas, nuclear power has become a more attractive product. America's 103 existing nuclear plants, which use much of USEC's uranium, have become increasingly efficient and are now operating close to capacity. In a move that would have been inconceivable only a few years ago, some utilities are again considering the construction of new reactors.

Meanwhile, USEC is doing precisely the kind of things privatised companies tend to do. In pursuit of efficiency, one of its two plants is being shut down. Its workforce, 5,000-strong at the time of the offering, is down to 3,500 and shrinking. This being America, USEC is also using litigation to reshape the marketplace. In December, it brought an action for dumping against Urenco, a British, Dutch and German consortium widely believed to have the lowest uranium-production costs in the world, and Cogema/Eurodif, a consortium run by the French government. A month later, the International Trade Commission issued a preliminary ruling in USEC's favour. For the first time in years, there was a sustained rise in the price of enriched uranium. USEC's shares now trade at $9, three times their price in March 2000.

There is another factor behind the rise in USEC's shares: the possibility of takeover. In late July, restrictions on an acquisition of USEC imposed at the time of the privatisation will expire. Three years ago, a number of companies were believed to be interested in purchasing USEC's operations, including Allied Signal, now part of General Electric, which manufactures nuclear power plants, and a joint bid by the Carlyle Group, an investment bank with strong connections in Washington, along with Lockheed Martin, which once ran USEC's enrichment plants under contract. A bid from any of these companies would not be a surprise. If by August USEC's management is once again struggling to keep investors happy, expect another outfit to give it a go.

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BY INVITATION

Winners and losers

Apr 26th 2001
From The Economist print edition

The global distribution of income is becoming ever more unequal. That should be a matter of greater concern than it is, argues Robert Wade

AP

ANYBODY interested in the wealth and poverty of nations must be interested in what is happening to the global distribution of income, one would suppose. A lot turns on the question. If the world's income distribution has become more equal in the past few decades, this would be powerful evidence that globalisation works to the benefit of all. It would give developing countries good reason to integrate their economies closely into the world economy, as the IMF and the World Bank—and their mostly rich-country shareholders—urge them to do. It would answer some of the fears of the anti-globalisation protesters. And it would help to settle a crucial and long-standing disagreement in economic theory, between the orthodox view that economic growth naturally delivers "convergence" of rich and poor countries, and alternative theories which, for one reason or another, say the opposite.

Despite its importance, this issue has received rather little attention within the fields of development studies, international relations and (until very recently) international economics. Neither the World Bank nor the IMF has devoted significant resources to studying it. Many analysts apparently take it for granted that global inequality is falling. Others think it sufficient to focus on poverty, and ignore inequality as such. Both these views need to be challenged. New evidence suggests that global inequality is worsening rapidly. There are good reasons to worry about that trend, quite apart from what it implies about the extent of world poverty.

Distributing the spoils

What exactly does "world income distribution" mean? This article is concerned with distribution among the planet's 6.2 billion people, regardless of country or region. World income distribution can be thought of as the combination of (a) the internal income distributions for all the countries and (b) the distribution of average incomes across countries. Most of the inequality in world incomes reflects inequality in country averages rather than inequality within countries.

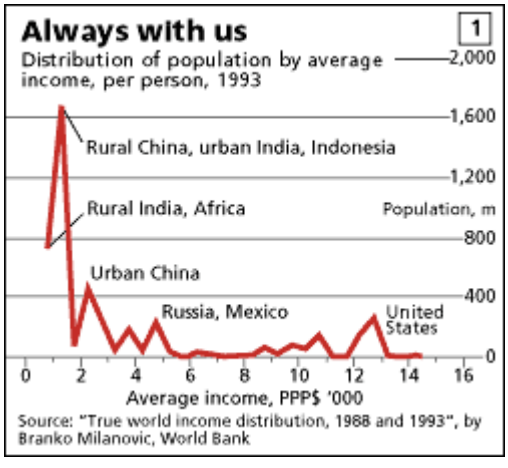

Chart 1 shows the distribution of the world's population by average income of each country (using compatible data from 1993, the most recent year available). Income is measured in terms of purchasing power over comparable bundles of goods and services, or purchasing-power parity (PPP), rather than in terms of actual exchange rates. China and India, with between them almost 40% of world population, are each divided into urban and rural sectors and treated as four separate countries.

The distribution has two poles. One, at the bottom end, is at an average income of less than $1,500 a year. It contains the populations of most of Africa, India, Indonesia and rural China. At the other pole, with average PPP incomes of more than $11,500, are the United States, Japan, Germany, France, Britain and Italy. Some of the space between $1,500 and $11,500 is occupied by countries such as urban China, Russia and Mexico. But notice the strange "missing middle": relatively few people live in countries with average PPP incomes that fall

between $5,000 and $11,500. If incomes were measured using actual exchange rates, the range from poorest to richest would be much larger.

Nobody denies that world income distribution became vastly more unequal after the industrial revolution. On this timescale divergence dominates, big time. But what happened in the past three or four decades?

Having ignored world income distribution for decades, international economics has lately seen a burst of interest. But the statistical difficulties are so formidable that the debate has so far revolved around questions of econometric technique. Standing back from the fray, we can see that much of the controversy concerns how to compare income in different countries.

The answer to what is happening to world income distribution turns out to depend heavily on whether countries are weighted by population, and whether income in different countries is measured in PPP terms or by using actual exchange rates. These two criteria can be set out in a matrix of four cells, with countries treated equally or weighted by population on one axis, and income measured in current exchange rates or in PPP terms on the other. Table 2 summarises the findings of the existing literature, dividing the studies among the four cells.

Worsening 2

World income distribution movement over the past quarter century

		Income measured in: market exchange rates	Income measured in: PPP exchange rates
Countries weighted by population?	No	Very much more unequal	More unequal
	Yes	Much more unequal	Little change

Source: R. Wade

If countries are treated equally (not weighted by population) and average income is measured in PPP terms, most studies find that world income distribution has become more unequal in the past few decades. If countries are weighted by their populations (so that China's change in average income counts for many times more than Uganda's), the world's PPP income distribution over recent decades shows little change.

It may seem obvious that one should weight countries by population, giving every individual in the world equal weight. For some purposes, though, it may make sense to weight countries equally. To test the growth theories mentioned earlier, or to assess the effectiveness of policy advice on how to raise growth rates, one can treat each country as a laboratory trial—an observation of a set of policies, institutions and resources—and take the average over all the trials. Likewise in the context of understanding co-operation in multilateral organisations such as the United Nations, where small-population states have more of a voice than their share of world population would warrant, it may make sense to look at world income distribution with countries weighted equally.

What about the second measurement issue: actual exchange rates or PPP? When incomes in different countries are compared using actual exchange rates, the evidence shows that world income distribution has become much more unequal over the past several decades, and that inequality accelerated during the 1980s, whether countries are treated equally or weighted by population. When incomes are compared using PPP calculations, the degree of inequality shrinks, and so does the rate of widening.

Many assume that PPP measures are always superior. Certainly the exchange rate is a flawed measure of purchasing power: it fails to reflect the large amount of non-monetary exchange in developing countries, or money payment for services that are not subject to international competition. Also, exchange rates are much affected by capital flows and by monetary policy.

But PPP measures have their drawbacks as well. Different methods of measuring purchasing-power parity, all plausible in themselves, yield different results. Comprehensive estimates of PPP incomes for developing countries, based on actual data on prices of comparable goods and services, go back only to the 1970s. This makes longer-run analysis difficult. Finally, incomes based on actual exchange rates may be a better measure than PPP of relative national power and national modernity—matters of more interest to sociologists and political scientists, no doubt, than to economists.

In any event, the bulk of the evidence on trends in world income distribution runs against the claim that world income inequality has fallen sharply in the past half-century and still faster in the past quarter-century. None of the four cells in the table supports this idea.

From poorer to richer

So much for the existing research. However, we can now go further. Two very recent studies based on

new data challenge the finding in the fourth cell that world PPP-income distribution weighted by countries' population shows little change over the past few decades. The new studies show, on the contrary, a rapid rise in inequality.

These new studies differ from the others in being based solely on household income and expenditure surveys. The earlier ones either used average GDP, ignoring inequality within each country, or used indirect methods to estimate within-country inequality, including production surveys and revenue surveys, which typically miss important components of household incomes. Branko Milanovic at the World Bank assembled the database, using the Bank's formidable statistical organisation to obtain household survey data from just about all the Bank's members, covering 85% of the world's population, for the years 1988 and 1993. The result is probably the most reliable data set on world income distribution.

Then Mr Milanovic computed the Gini coefficient for world income distribution, combining within-country inequality and between-country inequality, and measuring it in PPP terms. (The Gini coefficient is a commonly used measure of inequality: 0 signifies perfect equality, 100 means that one person holds all the income.) The results are startling. World inequality increased from a Gini coefficient of 62.5 in 1988 to 66.0 in 1993. This is a faster rate of increase of inequality than that experienced within the United States and Britain during the 1980s. By 1993 an American on the average income of the poorest 10% of the population was better off than two-thirds of the world's people.

The other new study, by Yuri Dikhanov and Michael Ward, uses the same data set with a different methodology. It confirms that world income distribution became markedly more unequal between 1988 and 1993. Like the Milanovic study, it finds that the Gini coefficient increased by about 6%. It finds, further, that the share of world income going to the poorest 10% of the world's population fell by over a quarter, whereas the share of the richest 10% rose by 8%. The richest 10% pulled away from the median, while the poorest 10% fell away from the median, falling absolutely by a large amount. In short, we have to revise cell 4. World PPP income distribution with countries weighted by population (and China and India split into urban and rural) became "much more unequal" between 1988 and 1993 (see table 3).

More unequal 3

World income distribution

Inequality measure	1988	1993	% change
Gini coefficient, world	63.1	66.9	6.0
Poorest decile's % of world income	0.88	0.64	-27.3
Richest decile's % of world income	48	52	8.3
Median as % of poorest decile	327	359	9.8
Richest decile as % of median	728	898	23.4

Source: R. Wade, based on "Measuring the distribution of global income", by Yuri Dikhanov and Michael Ward, World Bank

Why has global inequality increased? The answer is in four parts: (1) faster economic growth in developed OECD countries than developing countries as a group; (2) faster population growth in developing countries than in OECD countries; (3) slow growth of output in rural China, rural India, and Africa; and (4) rapidly widening output and income differences between urban China on the one hand, and rural China and rural India on the other. The income of urban China grew very fast during 1988-93, which reduced the gap between China's average income and that of the middle-income and rich countries, and so reduced the world Gini coefficient; but the widening gaps between rural China and urban China and between urban China and rural India increased world inequality by even more.

These trends in turn have deeper causes. Technological change and financial liberalisation result in a disproportionately fast increase in the number of households at the extreme rich end, without shrinking the distribution at the poor end. Population growth, meanwhile, adds disproportionately to numbers at the poor end. These deep causes yield an important intermediate cause that makes things worse: the prices of industrial goods and services exported from high-income countries are increasing faster than the prices of goods and services exported by low-income countries, and much faster than the prices of goods and services produced in low-income countries that do little international trade.

These price trends mean that the majority of the population of poor countries are able to buy fewer and fewer of the goods and services that enter into the consumption patterns of rich-country populations. The poorer countries and the poorer two-thirds of the world's population therefore suffer a double marginalisation: once through incomes, again through prices. Hence the figures in table 3, which show that the gap between the richest 10% of the world's population and the median is widening, and the gap between the median and the poorest 10% is also widening.

Polarised zones

Income divergence helps to explain another kind of polarisation taking place in the world system,

between a zone of peace and a zone of turmoil. The regions of the wealthy pole in chart 1 show a strengthening republican order of economic growth and liberal tolerance (except towards immigrants), with technological innovation able to substitute for depleting natural capital. The regions of the lower- and middle-income pole contain many states whose capacity to govern is stagnant or eroding, mainly in Africa, the Middle East, Central Asia, Russia, and parts of East Asia. Here, a rising proportion of people find their access to basic necessities restricted at the same time as they see people on television driving Mercedes cars.

The result is a lot of unemployed and angry young people, to whom new information technologies have given the means to threaten the stability of the societies they live in and even to threaten social stability in countries of the wealthy zone. Economic growth in these countries often depletes natural capital and therefore future potential. More and more people see migration to the wealthy zone as their only salvation.

It is remarkable how unconcerned the World Bank, the IMF and other global organisations are about these trends. The Bank's *World Development Report* for 2000 even said that rising income inequality "should not be seen as negative" if the incomes at the bottom do not fall and the number of people in poverty falls. Such lack of attention shows that to call these world organisations is misleading. They may be world bodies in the sense that almost all states are members, but they think in state-centric rather than global ways. They neglect not only matters of world income distribution, but also world inflation, world exchange rates, and world interest rates; and, in the case of the World Bank, the global environmental issues of the oceans, the atmosphere, and nuclear waste.

It is striking that most of the organised opposition to more globalisation comes from North America, Western Europe and Oceania. Why have elites from developing countries for the most part subscribed to the globalisation agenda that western states, businesses, and multilateral organisations have been promoting, if a case can be made that the gains of free markets for goods and capital tend to be concentrated in the top levels of the income distributions of their countries? Why are they doing so little to integrate their economies into the world economy in a strategic way, not open-endedly?

Part of the reason may be that elites in developing countries, like their counterparts in the rich world, are content to believe either that world inequality is falling, or that inequality is good because it is the source of incentives. They, like the multilateral economic organisations (and the reformers of Victorian England), worry about poverty. But they see no link between widening world income distribution and poverty; and they think that poverty can be fixed by providing the poor with welfare and opportunities without changing larger structures like income and asset distributions. Academic analysts have a responsibility to counter the current neglect by analysing the relationship between trends in world income distribution and poverty as a way of getting distribution issues on to the world agenda.

Growing inequality is analogous to global warming. Its effects are diffuse and long-term, and there is always something more pressing to deal with. The question is how much more unequal world income distribution can become before the resulting political instabilities and flows of migrants reach the point of directly harming the well-being of the citizens of the rich world and the stability of their states. Before that point is reached we should mobilise our governments, the multilateral organisations, and international NGOs to establish as an overarching priority a more equal world income distribution—and not just, as now, fewer people in poverty.

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The author would like to thank Michael Ward and Branko Milanovic for discussions about income distribution. This week's Economics focus comments on this article

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Cavallo's crunch

Apr 26th 2001
From The Economist print edition

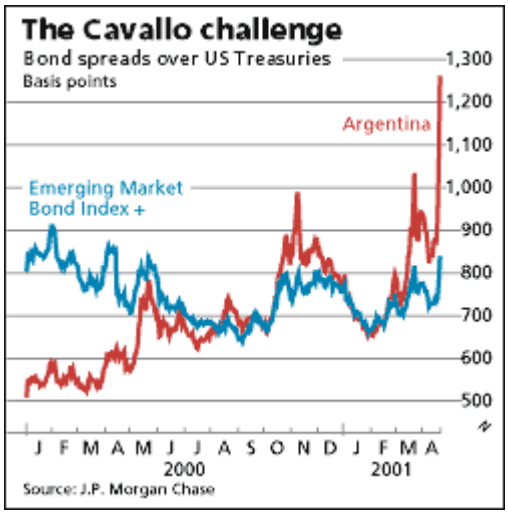
The sacking of Argentina's central-bank chief, after rows with the economy minister, may not be enough to calm market jitters

Get article background

EPA

INDIGNANT at rumours that Argentina might default on its debts or devalue its currency, or, indeed, that he was resigning, Domingo Cavallo sent a stiff "open letter to the markets" on April 22nd: how dare dealers spread such tittle-tattle instead of praising his achievements since he returned as economy minister a month ago? Certainly, Mr Cavallo has made firm moves to close the government's gaping fiscal deficit, and he has even got Congress's approval for new taxes and spending cuts. Yet the letter did little to help. The next day, the risk premium on Argentine bonds soared (see chart below), to its highest since the 1998 Russia crisis.

After dithering for a while, President Fernando de la Rua accepted on April 25th the recommendation of a congressional committee to sack Pedro Pou, president of the central bank. This, it is hoped, will calm the markets, by ending the open warfare between Mr Cavallo and Mr Pou. The economy minister has criticised the central bank for not improving liquidity in the financial system, and in particular for resisting his proposal to let banks count as part of their reserves some $2 billion-worth of bonds that the government has just sold them. Mr Pou has lent support to a suggestion by Mr de la Rua's predecessor, Carlos Menem, that Argentina should adopt the dollar as its currency and drop the "currency board", introduced by Mr Cavallo ten years ago, which pegs the Argentine peso to the dollar. Mr Cavallo opposes dollarisation and now wants to alter the currency board to link the peso to a mix of dollars and euros—an idea that has only added to the markets' uncertainty.



To the extent that Mr Pou's chosen replacement, Roque Macarrone, a former head of the government-owned Banco de la Nacion, is seen as close to Mr Cavallo, the move might be expected to calm investors. Confidence in Mr Pou had been dented by accusations that he had turned a blind eye to money-laundering by Argentine banks—the reason why the congressional committee said he should go. All the same, Mr Pou says that his dismissal will end the independence of the central bank, one of Argentina's few credible public institutions.

What is more, some market analysts believe that the main aim of Mr Cavallo's change to the rules on banks' reserves is not to improve liquidity, but to make it easier for the government to borrow. Reserve requirements are demanding, but this is because, in previous crunches, Argentines have rushed to withdraw bank deposits, and banks need to be prepared. Deposits have continued to fall since Mr Cavallo's return.

Although Argentine shares and bonds steadied ahead of Mr Pou's sacking, they remain vulnerable to fresh bouts of panic. Mr Cavallo cancelled an auction of treasury notes, scheduled for this week, because he feared that in the current climate investors would demand high interest rates—perhaps 20-25%, compared with 14% last month. The move increased investors' fears that Argentina may not be able to keep financing itself. The problem does not lie in the short term: the $40 billion of loans and credit guarantees that the IMF promised in January, plus some bond issues since then, mean that Argentina does not need to raise much more this year, so long as the public-sector deficit does not exceed its target of $6.5 billion.

Still, public debt stands at $128 billion, and large chunks of it will need refinancing over the next few years. Unless Argentina can resume economic growth, following three years of recession, its debt burden may become insupportable. Brazil returned to growth after a big devaluation in 1999. But this relatively easy exit is denied to Argentina because most of its public and private debt is in dollars. If it devalued, the government and many private borrowers would default, leading to a collapse of the financial system. A group of foreign banks with big exposures to Argentine debt is reported to be talking to the government about swapping shorter-term bonds for 20- to 30-year ones. Such a deal would help. But in the long run the only solution to Argentina's debt problem is economic growth.

As the man who tamed rampant inflation a decade ago, Mr Cavallo above all has to inspire enough confidence among the Argentine public and panicky foreign investors for growth to return. What has been sapping confidence, apart from Mr Cavallo's public rows with Mr Pou and his attacks on market "speculators", is a lack of detail about where he will make the spending cuts he promised. His dilemma is that divulging such details risks stirring up a political row at home, undermining a fragile governing coalition and so denting confidence further.

If Mr Cavallo fails, and Argentina defaults, the consequences beyond its borders would be grave. As it is, Argentina's troubles dragged the Brazilian *real* and Chilean peso to record lows against the dollar this week. Until March, Brazil was enjoying steady growth, low inflation and falling interest rates. Since then it has had to raise rates twice, as well as to sell dollar-indexed bonds, to arrest a sharp fall in its currency that threatens its inflation target. High interest rates and a weakening *real* have reignited worries about Brazil's own debt burden and its ability to service it.

A renewed downturn in Brazil—Latin America's biggest economy—would depress the whole region. But since Argentine bonds account for about 20% of all liquid, emerging-market debt, a default in Argentina could hurt all the world's developing countries. The consequences are so serious that the mere thought of a default may, with luck, now concentrate minds—in Buenos Aires and among international lenders—enough to pull the country back from the brink.

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The world economy

Waiting for growth

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From The Economist print edition

It may be a while before the outlook for the world economy picks up

THE world's finance ministers and central bankers, gathering in Washington this weekend for the spring meetings of the International Monetary Fund and the World Bank, are contemplating a duller outlook for the world economy. The Fund's latest *World Economic Outlook*, published on the eve of the meeting, paints a much gloomier picture than did its edition last October.

The Fund now expects global output growth to slow from 4.8% in 2000 to 3.2% this year—a full percentage point less than its growth forecast in October. If correct, growth will still be faster than during the Asian crisis in 1998, when world growth slipped to 2.8%. But the pace of the slowdown from last year would be the sharpest between any two years since the oil crisis of 1974. For many economies, this will feel like a jolt. The IMF is concerned that things could turn out worse even than this.

The Fund has cut its growth estimates for every part of the world (see table), but its central forecast is that America will avoid a recession. Even so, it warns that the imbalances that built up during America's boom—a negative personal saving rate, high corporate and household debt, overinvestment in some areas and a large current-account deficit—create the risk of a longer and deeper downturn. The IMF also notes that stockmarkets are still "richly valued by historical standards".

Indeed, the IMF explores a "harder landing" scenario, in which share prices fall by another 20% in America this year, the dollar also drops by 20% against the other main currencies, and consumer and business confidence decline sharply in both America and Japan. America would then see growth close to zero this year, reducing global growth by more than a full point, to around 2%. Japan's GDP would contract, while the euro area would grow by just 1.3%. That would come close to counting as what has come (if inexactly) to be called a "world recession". As it happens, total world GDP has not actually fallen in any year since the Great Depression. In the past three so-called world recessions—in 1975, 1982 and 1991—world growth has ranged from 1.2% to 1.9%.

Global gloom
GDP growth, %

	2000	2001 forecasts made in Oct 2000	2001 forecasts made in Apr 2001
United States	5.0	3.2	1.5
Euro area	3.4	3.4	2.4
Japan	1.7	1.8	0.6
Developing Asia	6.9	6.6	5.9
Asian tigers*	8.2	6.1	3.8
Africa	3.0	4.4	4.2
Latin America	4.1	4.5	3.7
Russia and Eastern Europe	5.8	4.1	4.0

Source: IMF *Hong Kong, Singapore, South Korea and Taiwan

The IMF's prescriptions are hardly new. America's Fed needs to keep cutting rates. The Bank of Japan needs to pump money into the economy, and to clean up the financial sector. The Fund also suggests that the European Central Bank has scope for a moderate cut in interest rates.

Tech effects

All the same, the IMF is worried about the spillover effects in Europe from America's sharp slowdown. In the report, it explores how the strong correlation in the price movements of high-tech shares around the world might affect economic activity. To track what effect the burst technology bubble might have on the world economy, it is necessary to know whether consumer spending and investment are more sensitive to changes in the value of technology shares than to movements in the shares of other kinds of companies.

The IMF analyses the impact of share prices on consumer spending in the big economies between 1990 and 2000. It finds that after two years, a $1 increase in the value of both tech shares and non-tech shares in America leads to an increase in consumer spending of 4-5 cents. In continental Europe, where fewer people own shares, swings in the prices of non-tech shares seem to have a negligible effect on spending.

On the other hand, changes in the value of tech shares seem to have just as big an impact on spending in Europe as in America. This may be because the increase in share ownership in continental Europe in recent years has been concentrated in technology shares. Even so, because stockmarket capitalisation in continental Europe is still smaller in relation to GDP than in America, the overall impact on the economy is smaller.

What about the impact of share prices on investment, via the cost of capital? Changes in share prices have traditionally had a smaller impact on investment in continental Europe than in America, because with fewer takeovers and more debt financing, managers have tended to be less responsive to stockmarkets.

This too seems to apply less in the technology sector. The IMF finds that in continental Europe changes in non-tech shares have little or no impact on investment, but each dollar increase or fall in the value of tech shares has just as big an impact on investment as in America. Since share prices in the technology sector have fallen as sharply in Europe as in America, this suggests that the bursting of the tech bubble could yet make a bigger dent in continental Europe's growth than many people expect.

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European Bank for Reconstruction and Development

Giving it the BERD

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This week the European Bank for Reconstruction and Development celebrated its tenth anniversary, in London

AMID the self-congratulation at the tenth annual meeting of the European Bank for Reconstruction and Development (EBRD), there were clear signs that the bank has learnt some hard lessons from its first decade. The EBRD was created 18 months after the fall of the Berlin Wall, to help the development of market economies in formerly communist countries. Its first few years, however, were characterised more by scandals about the extravagant spending habits of its then-president, Jacques Attali, than by any economic achievement. The next president, Jacques de Larosière, swiftly brought in an austerity drive at the bank, while seeing that large volumes of money were lent to Central and Eastern Europe, Russia and the rest of the ex-Soviet Union.

Reuters

Lemierre looks ahead

The EBRD admits that the sheer quantity of loans may have impaired their quality, an imbalance it now wants to redress. It also acknowledges that it has been insufficiently aware of the social effects, such as sudden unemployment, of the transition from state-planned to market economies. “In the beginning there was a belief that if we dismantled the old dinosaurs and poured in money like water, everything would grow,” says Jean Lemierre, who took over as president of the EBRD last year. Now, he says, issues such as corporate governance, corruption, legal systems and poverty must be addressed.

Hence the bank has refused to lend money to Gazprom, a Russian company whose standards of corporate governance, the EBRD thinks, leave too much to be desired. The EBRD has no mandate to tackle poverty directly—although it recently agreed to lend money to a Polish railway, PKP, for severance pay to its workers.

One clear sign of change is the bank’s newfound enthusiasm for lending to small businesses. People at the EBRD say that small-business lending has traditionally been regarded as a poor relation of big, investment-banking-style deals. “People used to think that what I do isn’t banking,” says Elizabeth Wallace, head of the EBRD’s new small-business banking unit. Now, she says, she is treated with a new respect, partly because levels of default on small loans are next to nothing, despite the Russian financial crisis of 1998.

Last year about 51,000 loans, worth $256m, were made to small businesses through EBRD-supported programmes, up from 14,000, or $110m-worth, in 1999. Some loans are as small as $30, and they go to dressmakers, restaurateurs, hairdressers, pig-farmers and other entrepreneurs. The bank expects to carry on doubling its micro-finance lending over the next few years, which means that in 2002 it will devote $1 billion to this business, a big chunk of its $3 billion annual lending target.

Since it was created, the EBRD has struggled to reconcile various conflicting roles. Its first responsibility, to finance the transition from centrally planned to market economies, threatens to work against its “sound banking” rule that loans must be commercial. At times, its critics say, the bank seems to have invested more for profit than for economic transformation.

After ten years of lessons, the bank’s shareholders now insist that it adheres still more strictly to its economic and political principles—lending, for instance, only in democratic countries. Mr Lemierre recently wrote to the president of Belarus that the EBRD would consider suspending its access to funds unless presidential elections this autumn were conducted fairly—perhaps not the *ne plus ultra* of threats. Turkmenistan, of which Saparmurad Niyazov recently declared himself president for life, is also the subject of lively discussion inside the bank. Tricky political questions like these are becoming more common for the EBRD. At what point, for instance, does it decide that institutionalised corruption has

gone too far in Edward Shevardnadze's Georgia?

Now that many of its beneficiaries—notably Poland, Hungary and the Czech Republic—are probably only a few years from joining the European Union, the bank needs to shift its attention eastwards, with rather more emphasis on countries such as Russia and the former states of the Soviet Union. Otherwise it risks flouting another key principle: not to steal business from private-sector financiers.

For the time being, the EBRD says, its lending in Central European countries will stay fairly steady, at around $1 billion a year. There are still areas that private investors shun—municipal finance, for instance. But more money will gradually go farther east, where private investors shun much more. All this, naturally, democracy permitting.

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Economics focus

Of rich and poor

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Elsewhere in this week's issue, the economist Robert Wade argues that global inequality is increasing faster than hitherto suspected, and that governments should respond (see article). Is he right?

IN POLITE policymaking circles, inequality is like the subject that dares not speak its name. In recent years, egalitarianism has lost much of whatever political appeal it ever had, in the rich industrialised countries, in the developing world, (especially) in the ex-communist economies of the former Soviet Union and Central and Eastern Europe, and certainly in communist-run China. Governments and development institutions such as the World Bank and the IMF express their concerns about poverty, and frame policies intended to reduce it, but do not seem to regard inequality, as such, as worthy of much attention. *The Economist*, it must be admitted, has also subscribed to that point of view.

This week's invited article by Robert Wade, a professor of political economy at the London School of Economics, draws attention to some important new findings on global inequality and urges governments to start taking the matter much more seriously. Inequality matters, in Mr Wade's view, above and beyond what it implies about poverty. For one thing, it may be an indicator of global political strain: if the world's poor see the world's rich getting ever farther ahead of them, they may begin to object. "The result is a lot of unemployed and angry young people, to whom new information technologies have given the means to threaten the stability of the societies they live in and even to threaten social stability in countries of the wealthy zone."

Perhaps governments are neglecting the subject because they think that growth will reduce both poverty and inequality in due course? If so, they are wrong—or so Mr Wade argues. Studies cited in his article show that inequality has been rising, and rapidly.

What is one to make of all this? Mr Wade undoubtedly raises some interesting and important questions. But one may beg to differ with him on some things, and especially on the conclusions he draws (or invites his readers to draw).

First, one must be cautious about the data. Unfortunately, one must always be cautious about the data. The information feeding into the new calculations cited by Mr Wade is better, and certainly much more detailed, than the information used in earlier studies. But the adopted time-period is short: 1988-93, just five years. You might say that makes the reported substantial rise in inequality all the more alarming. But without longer runs of data it is hard to know whether this change is part of a well-established trend, as Mr Wade suspects, or a short-term fluctuation.

Still, take the worst case, and assume it is indeed a part of a trend. What might be driving it? Mr Wade cites four proximate causes: faster growth in rich countries than in poor; faster population growth in poor countries; stagnation in Africa, rural China and rural India; and a rapidly widening gap between urban

China, on one hand, and rural China and rural India on the other. Behind these factors he conjectures that there are deeper causes, and one above all: “technological change and financial liberalisation result in a disproportionately fast increase in the number of households at the extreme rich end, without shrinking the distribution at the poor end.”

But is it not something of a leap from those proximate causes to that primary underlying cause? The interesting new information that Mr Wade draws attention to does not, on the face of it, confirm that inference. At a minimum, the data are consistent with other explanations.

To most people, the really alarming new finding in Mr Wade’s article is that the extent of absolute poverty in much of the world has increased. Certainly, this ought to concentrate the minds of policymakers. Most egalitarians, even, ought to find the rise in poverty much more worrying than the fact that incomes at the top have streaked away—even though, so far as inequality is concerned, both these changes are equally significant.

Does this worsening of poverty support Mr Wade’s conjecture about the underlying cause—and so about the perils of globalisation? To answer this, one needs to ask, where did poverty increase and why? Apparently, it increased especially in Africa, in rural China and in rural India. It seems odd to regard such regions as victims of globalisation. On the face of it, they are rather the opposite: victims of a lack of globalisation. Their geographical and economic isolation is surely their salient characteristic. It makes better sense to think of extending the scope of globalisation—which means addressing the causes of their isolation—than to think of limiting or somehow re-engineering the processes of global growth.

Good evidence, as discussed before in this space, suggests that growth reduces poverty. There is evidence, too, that poor economies can put themselves on a development path that causes their incomes to converge with incomes in rich countries. The plight of countries, or regions within countries, that fail to get on that path is indeed a matter of the gravest concern. It would be unforgivable to ignore them—and, as Mr Wade points out, their condition may be even more desperate than had been previously supposed. It would also be wrong to sit back and hope that globalisation, left to itself, will somehow sweep them up in due course. But, having said all this, the challenge is still to engage these regions in economic growth and technological progress, not to find some way of protecting them from it.

None of this addresses another of Mr Wade’s arguments: that inequality is a bad thing in itself, regardless of the extent of poverty. Many people would agree with that—though it has some strange implications. One is that you could regard a country with more equality as a greater success than another, even if the egalitarian country had not merely lower incomes on average, but also more people in absolute poverty. Mr Wade’s points about inequality and social stress are well taken. Yet pulling up the poor still seems a nobler calling than pulling down the rich.

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India's stockmarkets

Getting tough

Apr 26th 2001 | MUMBAI
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Reuters

SEBI's stock is rising, boys

AFTER taking time to put in its dentures, India's stockmarket regulator is at last starting to growl. Last week it suspended three stockbroking firms, one of them a foreign bank, Credit Suisse First Boston (CSFB), after a price-rigging scam had sent the markets crashing in March. CSFB protests its innocence, which it will have a chance to prove at an inquiry due on April 30th. Still, the suspension comes as an embarrassment after the great losses that the bank incurred in Russia, and the public airing of wrongdoings in Japan.

CSFB's involvement is only one part of what is turning into India's biggest stockmarket scandal in years. It all began in early March, when shares started falling—curiously, immediately after the finance minister, Yashwant Sinha, had presented a budget that was praised for being investor-friendly. Between March 1st and mid-April, the Bombay index fell by one-fifth. The Securities and Exchange Board of India (SEBI) is convinced it was manipulated, both on the way up and down.

At the heart of the scandal sits Ketan Parekh, a Mumbai stockbroker who is under arrest for allegedly defrauding a co-operative bank, Madhavpura Bank, of 1.4 billion rupees ($29m). The money was used to ramp the share prices of a number of companies listed on the Calcutta bourse, the country's third largest, often in collusion with their owners. His shenanigans nearly caused the collapse of the bank, which had borrowed recklessly from smaller banks in order to support Mr Parekh's stockmarket investments. Madhavpura's former chairman is also under arrest; the bank itself is a ward of the central bank. CSFB was one of Mr Parekh's brokers, and helped him to sell his holdings in early March.

The story does not end there. Anand Rathi, until recently the president of the Bombay Stock Exchange, is charged with insider trading. He asked the exchange's own surveillance department for information about Mr Parekh's open positions—allegedly with the intention of profiting from the knowledge. Shortly after he resigned in early March, the SEBI removed all the broker-directors who ran the exchange.

The SEBI is prepared to be tough even when that causes problems for the government's reform efforts in other areas, notably privatisation. On the day it banned the three brokers, it also barred three listed companies, charged with rigging their share prices in 1998, from coming to the capital markets for up to four years. One of the companies, Videocon, is a bidder for a stake in Indian Airlines, which is being privatised; another, BPL, wants a share in VSNL, a government-owned telecoms giant (which, coincidentally, is also being advised by CSFB). Meanwhile, the third sinner, Sterlite, has just taken private an aluminium company, Balco, amid a good deal of controversy.

The regulators' bans must raise doubts about the privatisation drive. If the banned companies are allowed to go ahead and bid in the privatisations, there will be concerns about the capital they have available to invest in the privatised companies. If they are not allowed to bid, the field of potential purchasers has dangerously narrowed.

Thus the SEBI's moves do at least show how serious the government is about cleaning up the murky state of Indian stockmarkets. This week Mr Sinha told parliament that the SEBI must be allowed to take action against rule-breakers, even when that caused stockmarket uncertainty. He promises that bourses will themselves be demutualised, separating their owners from their managers. New settlement and margin rules, aimed at preventing share ramping, are meant to be in place by July. That should give India's 30m retail investors, as well as foreign portfolio managers, who have over $13 billion invested, the hope that they will not always be taken for a ride.

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Lay-offs on Wall Street

More time with the family

Apr 26th 2001 | NEW YORK
From The Economist print edition

IT IS, says Luqman Arnold, chief financial officer at UBS, a Swiss-based bank, a “tremendous opportunity to hire the best on Wall Street.” This is a nice way of saying that the big banks, UBS included, are booting out huge numbers of bankers and brokers, as almost all their businesses—stockbroking, flotations, mergers and acquisitions—dry up.

Investment banks often get rid of employees at the merest hint of trouble. In brief downturns in the 1990s first Salomon Brothers, then Goldman Sachs and most recently Merrill Lynch all suffered instant regret about laying off staff—not, you understand, over lives ruined, but because share prices rebounded, deals picked up and staff had hurriedly to be rehired at greater cost than before they were sacked. The big investment banks have been wary of making the same mistake again. So this time they have moved slowly. They have been cutting staff discreetly, or describing lay-offs as the chance to toss out the mediocre in favour of the best.

Cynical, but then this is investment banking. Typically, half of all banks’ revenues, and sometimes as much as 60%, go straight out again as pay. It is the obvious thing to cut when revenues fall, and lately they have plunged.

The slowdown in mergers and acquisitions and in equity underwriting (particularly for initial public offerings) has been savage. The Wall Street firms’ worldwide underwriting fees fell by about a third in the first three months of this year, compared with a year ago, to $4.6 billion. Many of the companies floated in the past year have gone bust, and those that survive do not want to raise any more money when investors are so unwilling to advance it. That translates into less need for investment bankers or armies of salesmen.

On April 24th, Morgan Stanley announced that 1,500 people, or about 4% of its investment-banking and asset-management staff, were to be fired. Merrill Lynch acknowledges “selective staff reductions”: among others, 200 investment bankers, mostly in New York, are expected to get the push. UBS Warburg has quietly cut its 1,100-strong investment-banking staff by 6% in the past two weeks. In New York, Deutsche Bank is laying off an undisclosed number of employees as part of a “core restructuring”, whatever that means. Goldman Sachs is “actively looking at performance reviews”. Its chief executive, Henry Paulson, is blunt. He says that poorly performing employees should be “eliminated” annually, although that policy was not pursued with much diligence when the markets were roaring.

This round of Wall Street job losses comes on top of cuts that stem from the two biggest mergers last year: Chase Manhattan’s takeover of J.P. Morgan, and the purchase of Donaldson, Lufkin & Jenrette by Credit Suisse First Boston (CSFB) . After that deal, many highly-rated staff found better offers at other investment banks, or they stayed only with the help of fat, guaranteed pay packages. The problem now, says Richard Thornburgh, CSFB’s vice-chairman, “is pushing people out the door rather than pulling them in.”

The retail side of the business is suffering too. At Charles Schwab, America’s biggest discount brokerage, revenue from share orders has fallen by half in the past year. The firm recently said that as many as 3,400 employees, or 13% of the workforce, would be forced to leave. Even such fund-management companies as Putnam, Janus, and T. Rowe Price—harvesters of assets rather than hunter-gatherers, and so supposedly steadier businesses—have laid off staff.

How deep will the cuts go? Diane Glossman, one analyst who still has a job at UBS Warburg, reckons that 13,500 job cuts have been announced since last autumn on Wall Street, a smaller drop (about 4% of all employees) than in the underlying business. There will be more lay-offs, she adds, “and if there aren’t, there is a problem with management.” Sharpening their knives, managements intend, as the jargon has it, to be part of the solution, not of the problem.

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Profiting from banks' mistakes

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From The Economist print edition

ELWYN EVANS used to run a magazine called the *Welsh Golfer*. Then a bank came along, lent him money and, over time, charged him £20,000 ($29,000) more interest than it should have done. The business folded. Now Mr Evans is taking sweet revenge on Britain's banks with a new venture, based in north Wales, called "e-bankbusters". Its mission is to ferret out the myriad overcharging errors that banks continue to inflict on small businesses.

Incompetence at British banks has spurred the growth of a thriving cottage industry of "bank auditors". A small business which suspects that it is being cheated can go along with a pile of monthly bank statements to get them checked. If the auditors find something amiss—and they usually do—they present the proof to the bank and take a cut of the compensation, typically between 15% and 30% of what the bank is eventually obliged to hand out.

The scrutineers argue that overcharging can mean the difference between survival and bankruptcy. Usually, the mistakes occur when companies borrow. One 15-bedroom hotel in the Scottish Highlands had nearly £100,000 ($144,000) refunded when it discovered that its bank had charged interest on an overdrawn account. The bank should have netted the borrowing against another account that was in credit. Now the former owners are no longer hoteliers. They have set up a bank-auditing business.

All around them, bank auditors believe, run seams of ill-gotten cash just waiting to be mined. A government review last year of British banking, chaired by Don Cruickshank, even put a figure on banks' "excess" profits: as much as £5 billion. "With that much overcharging out there somewhere, we've got a long way to go," says Ian Foyster, head of Anglia Business Associates, which won back £2m for its clients in 2000. His firm, which was bought by the Consumers' Association in February last year, is staffed mostly by people who used to work for Barclays Bank. Presumably, they know how small businesses get fleeced.

Part of the problem, says Judith Hardaker, a bank checker in Yorkshire whose clients include local farmers and a garage, is that small-business people are afraid of banks and, left to themselves, tend to keep quiet about mistakes. "They wonder if the bank will call in its loan if they complain," she says. "Besides, they don't like suits."

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Banks in Central Europe

The banks that don't lend

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From The Economist print edition

SEYHAN PENCAPLIGIL runs a Turkish-owned bank in Tirana, Albania. Jack Stack runs an Austrian-owned bank in Prague. Both have a similar headache, which is that the banks can do only half their job. They have plenty of deposits, but finding somewhere useful to lend the money is well-nigh impossible. They just keep the money in local treasury bills. The result is that, after ten years of "transition" from communism, the banking systems in these two central European countries are still ineffective economic actors. Why?

The Albanian case is simple. The legal infrastructure is so weak that Mr Pencapligil is afraid to make any loans. He mentions one Albanian bank that dared to: it made more than 2,000 small credits and now has 70 outstanding claims in the courts. So far the bank, Fefad Bank, has won only a single case, but the collateral proved impossible to sell.

Mr Pencapligil's bank, the National Commercial Bank, is majority-owned by Kentbank of Istanbul, which took control last year, with two multilateral agencies, the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC), coming in as minority shareholders. The EBRD and the IFC are poised to invest in another institution, the Savings Bank of Albania, when it is privatised this summer. But the Savings Bank will have the same problem as Mr Pencapligil, times ten. It accounts for the great bulk of the Albanian banking system: 83% of the country's deposits, but no loans. Its bad industrial loans, that is, all of its loan book, have been hived off into a resolution trust. Its deposits are invested in treasury bills, of which it owns 85% of the issues outstanding.

Where to go from here? The consultants working to restructure the Savings Bank are trying to reduce its dominance. State pension payments, which it once handled, have been given to the post office, Albapost. Yet the bank still has to find suitable borrowers if it is not, like National Commercial Bank, to be stuck with a 2% net return.

It appears that the Albanians have reinvented the "narrow bank", which takes deposits and invests only in "risk-free" assets. But capital-hungry enterprises are robbed of a source of finance. What is the point in cleaning up a bank at public expense if it fails to oil the wheels of commerce?

Mr Stack in Prague is trying to answer that question. He is an American banker hired by Erste Bank of Austria to run the Czech savings bank, Ceska Sporitelna, which it bought last year—with the EBRD once again as a minority shareholder. Ceska Sporitelna, like its Albanian sister and indeed like most former communist banks, was a dustbin for bad industrial credits. Erste Bank was allowed to keep the loans it liked and to reclassify the rest, to be dealt with by the government's bad-loan bank, Konsolidacni Banka. That leaves Mr Stack with nice, clean assets, mostly in Czech treasury bills—and a lending problem. The few good Czech companies can demand such cheap borrowing that it is hardly worth lending to them. On the retail and small-business side, Mr Stack's loan officers are so risk-averse that they hardly dare to make a credit decision.

The Czech and Albanian financial sectors, not obvious bedfellows, have spent a decade trying to get their act together. In Albania there was political upheaval and near-civil war, coupled with two financial scandals. The Czech Republic suffered the turmoil of separation from Slovakia and a shock privatisation of everything but the banks (at least, until 1998). But there was little restructuring. The government is now paying the cost—this year an estimated 9% of GDP—for the soft lending and for the failure to close companies. The bill includes the cost last year of guaranteeing all the bad loans of one insolvent bank before it was sold to a rival, and of dressing up Komercni Banka before its privatisation, scheduled for some time this year. The bad loans were replaced on the banks' balance sheet by, you guessed it, treasury bills.

How much should the EBRD, the self-appointed midwife of transition, be held responsible, at least in

part, for these wasted years? What could it have done differently? Part of the answer comes from Mr Stack, who values the EBRD less as a shareholder and more as the provider of two free experts on micro-lending. “Those two people in Prague are irreplaceable,” he says.

Interestingly, the EBRD, faced with a new challenge in a Yugoslavia now free of sanctions, has launched first into loans for small and medium-sized enterprises and short-term facilities, just to get companies trading. The big-picture stuff that it peddled during its first decade has been put on hold for now, and perhaps forever.

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Domestication's family tree

Apr 26th 2001
From The Economist print edition

DNA is revealing that taming animals was not a simple process

FEW subjects, these days, can escape the embrace of genetics. That is especially true of archaeology. The study of genes has already illuminated humanity's history, showing how and when the species spread from its African roots to the farthest corners of the world. Now it is uncovering details of the most significant period of that history, the beginning of agriculture.

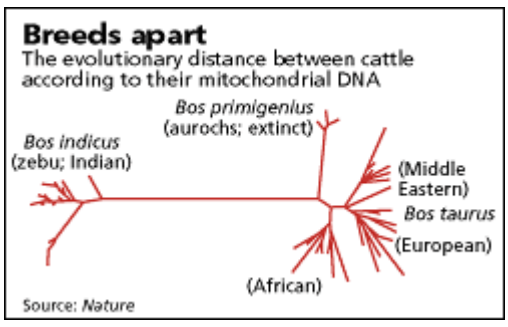
The latest piece of the jigsaw was published in this week's *Nature* by Christopher Troy of Trinity College, Dublin, and David MacHugh of University College, Dublin. They and their colleagues have been trying to work out whether modern European cattle were domesticated from the now extinct auroch (*Bos primigenius*) that once roamed the continent, or are the descendants of cattle that were brought from the Middle East by the settlers who are believed to have introduced agriculture to Europe around 7,000 years ago.

To answer this question, Dr Troy and Dr MacHugh turned to mitochondrial DNA. This particular form of the genetic material is more abundant in a cell than is the familiar DNA of the cell's nucleus. That is because each cell has many mitochondria. They are the cellular components that release energy from glucose, and they have their own DNA because they were, in the distant evolutionary past, free-living bacteria. By contrast, a cell has but a single nucleus. Extracting mitochondrial DNA from old bones is therefore easier than extracting nuclear DNA.

That is what Dr Troy and Dr MacHugh did. They took mitochondrial DNA samples from four fossil aurochs found in Britain and compared them with the mitochondrial DNA of modern cattle from Europe, Africa and the Middle East. As time passes, mutations accumulate in the DNA, as one "letter" of the genetic code is replaced by another. By looking at the number of differences between the DNA-sequences of two creatures it is possible to see how closely related they are. It is also possible to estimate how much time has passed since they shared a common ancestor, since the rate at which letters are substituted usually remains constant for particular types of creature.

As the diagram shows, the aurochs, though related to Middle Eastern and European cattle, are on a branch by themselves. The aboriginal Europeans did not, it seems, have the wit to domesticate cattle. It took a bunch of immigrants to show them how.

That, until recently, would have been regarded as a textbook example of the way that agriculture developed. Species, it was theorised, were domesticated only once and the result "diffused" to the rest of the world. Over the past few years, though, other genetic studies have revealed a more interesting pattern.



The diagram of the cattle family tree published by Dr Troy and Dr MacHugh incorporates another branch, discovered a little while ago by Daniel Bradley, one of their collaborators who also works at Trinity College. Dr Bradley was responsible for testing the theory that modern cattle are the result of not one but two separate

domestications. This theory, which predates even Charles Darwin, is based on the very different anatomies of cattle found in Europe and the Middle East, compared with those from India. In particular, the westerly cattle lack the shoulder humps of zebu, the Indian breed.

Those who support the idea of a single domestication suggest that the distinctions could be the result of subsequent selective breeding. Dr Bradley, though, used mitochondrial DNA to show that the most recent common ancestor of *Bos taurus* (the western cow) and *Bos indicus* (the zebu) may have lived as much as 1m years ago—well before *Homo sapiens* existed.

'Til the cows come home

In Africa, the story is more confusing. African cattle have features of both *Bos taurus* and *Bos indicus*, but their mitochondrial DNA suggests that, despite this apparently intermediate nature, they all belong to *Bos taurus*. Mitochondrial DNA, however, is unusual in being passed down only from mothers to offspring (sperm leave their mitochondria behind when they fertilise an egg). When Dr Bradley examined the nuclear DNA of cattle, and in particular that of their Y chromosomes, which confer maleness, he found a different picture.

Zebu-like cattle in Africa did, indeed, turn out to have Indian genes in them. But those genes have come, overwhelmingly, from male Indian cattle. That suggests cattle originally came to Africa from the Middle East, as geography might predict. But it also suggests that, when trade eventually brought Indian cattle to Africa, the zebu took the fancy of African stock-breeders, who deliberately studded their females with Indian males. That explains the mixture of characteristics, and also why the female-linked DNA looks Middle Eastern and the male-linked DNA looks Indian.

Cattle are not the only animals to have been domesticated on more than one occasion. Mitochondrial DNA suggests that goats, sheep, pigs, yaks and buffalo were each domesticated at least twice. Dogs were domesticated at least four times. And the mitochondrial tree for horses is so tangled that it is impossible to say exactly how many times people first slung themselves into the saddle.

That is intriguing for two reasons. First, it suggests that lots of people had the idea of domesticating animals independently, rather than the process being tried out only once for each species. Second, it adds weight to the idea that the reason such a limited number of animals has been domesticated is not because people stopped when they felt they had enough species for their needs, but rather because they tried many times and frequently failed. It was only with the ancestors of the species that now grace farmyards that they got results.

Melinda Zeder of the Smithsonian Institution in Washington, DC, who studies the process by which goats were domesticated, observes that the wild forms of those species that have been domesticated tend to live in groups and have fairly clear dominance hierarchies. This makes it easy for them to fit in with humanity. Animals such as gazelles, which would, on the face of things, be good candidates for domestication, do not have such hierarchies, so they would not easily submit to the discipline that the farmyard requires. Whether the free-spirited gazelle is better off than the cosseted goat, cow or sheep is an open question.

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Website design

Scents and sensibility

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From The Economist print edition

IF WEBSITES are built without bricks or mortar, why does navigating around them so often feel like bashing your head against a wall? Yet frequently it does, and as Jakob Nielsen, one of the gurus of the World Wide Web, points out: “On the Internet, ease of use comes first and transfer of money comes second. Revenues on the web are determined almost completely by usability.” It is hardly surprising, therefore, that groups of researchers around the world are trying to devise scientific methods that can make the web easier to use.

One such group is based at Xerox’s Palo Alto Research Centre in California, and is led by Ed Chi and Stuart Card. Dr Chi and Dr Card take their inspiration from the science of ecology. Dr Card, a cognitive psychologist, reckons that a user “forages” through a website in search of a piece of information in a manner similar to that employed by an animal foraging through a forest in search of food. Watch the user’s foraging behaviour (his “clickpath”) closely enough, and you can work out what “scent” he is chasing, and thus what kind of information he is after. For example, if a user begins by looking at a article on romantic dinners and winds up trying to purchase espresso ice-cream, he (or, in this case, perhaps she) is more likely to follow up by clicking to an article selling perfume or candles than to an article offering pencils or glue.

Sites such as that of Amazon.com, the best-known online retailer, already use programs that guess what else a user might want, based on his previous clickpath. This allows the site to work out which products a user ought to find most enticing, and to recommend them. But to assess a site’s usability, Dr Chi has created a program that does the opposite. Given a target, this program, known as “Bloodhound”, predicts the clickpath that a user would take to get there. At a conference on computer/human interaction held by the Association for Computing Machinery in Seattle earlier this month, Dr Chi explained how his method works.

Bloodhound begins by taking a “snapshot” of all the words on a website, and of all the links connecting the site’s pages. It then assigns a “smell” to each link. This smell is a mathematical formula known as a vector, and is composed of three elements. The first contains the words of the link itself (the highlighted text that a user clicks on to get to the page). The second contains the sentence leading up to the link. The third contains the article that the link leads to.

Vectors can be compared mathematically to see how similar they smell. This is done by checking how many words each element in one has in common with the elements in the other—with the proviso that matches between first elements have higher value than matches between second elements, and second-element matches count more than third-element matches.

When Bloodhound is let loose on a site by feeding it with a word or phrase, such as a product name (the digital equivalent of waving a fugitive’s handkerchief under its nose), it follows the scent trail from article to article by looking for the link on each article that smells most like its target. If it easily gets to the article intended by the designer of the website as the destination of a real user who had the same target in mind, that points to good site design. If it weaves from article to article before arriving—or, worse still, fails to arrive at all—that suggests a site that will leave users frustrated and confused.

Naturally, such a process is useful only to the extent that the computer program searches in the same way that a person would. To test that it does, Dr Chi compared the clickpaths that Bloodhound followed with those of actual, human users, and found that they matched quite well.

The current way of rating the ease with which a website can be navigated involves assembling a team of human testers, briefing them, getting them to perform a set of searches that they are not really interested in, collecting data on their failures and successes, and analysing it. Not only can the bill for such an exercise add up to as much as $25,000; it also involves doing what most geeks would rather avoid at all costs—working with people, who are consistently inconsistent in their likes and dislikes. At a

couple of thousand dollars a pop, Dr Chi's software should provide a welcome alternative.

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Display technology

The age of the electronic page

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INFORMATION technologists have dreamt for decades of making an electronic display that is as good as paper: cheap enough to be pasted on to walls and billboards, clear enough to be read in broad daylight, and thin and flexible enough to be bound as hundreds of flippable leaves to make a book. Over the past few years they have got close. In particular, they have worked out how to produce the display itself, by sandwiching tiny spheres that change colour in response to an electric charge inside thin sheets of flexible, transparent plastic. What they have not yet found is a way to mass-produce flexible electronic circuitry with which to create that charge. But a paper just published in the *Proceedings of the National Academy of Sciences* suggests that this, too, may be done soon.

The process described by John Rogers and his colleagues from Bell Laboratories, an arm of Lucent Technologies, in New Jersey, and E Ink Corporation, in Cambridge, Massachusetts, starts with E Ink's established half-way house towards true electronic paper. This is based on spheres containing black, liquid dye and particles of white, solid pigment. The pigment particles are negatively charged, so they can be pushed and pulled around by electrodes located above and below the sheet.

The electrodes, in turn, are controlled by transistors under the sheet. Each transistor manipulates a single picture element (pixel), making it black or white. The pattern of pixels, in turn, makes up the picture or text on the page. The problem lies in making the transistors and connections. Established ways of doing this, such as photolithography, use silicon as the semiconductor in the transistors. That is all right for applications such as posters. It is too fragile and too expensive, though, for genuine electronic paper—which is why cheap and flexible electronic components are needed.

For flexibility, Dr Rogers and his colleagues chose pentacene as their semiconductor, and gold as their wiring. Pentacene is a polymer whose semiconducting properties were discovered only recently. Gold is the most malleable metal known, and one of the best electrical conductors. Although it is pricey, so little is needed that the cost per article is tiny.

To make their electronic paper the researchers started with a thin sheet of Mylar, a tough plastic, that was coated with indium-tin oxide (ITO), a transparent electrical conductor. To carve this conductor into a suitable electric circuit, they used an innovation called microcontact printing lithography. This trick involves printing the pattern of the circuit on to the ITO using a rubber stamp. The "ink" in the process is a solvent-resistant chemical that protects this part of the ITO while allowing the rest to be dissolved.

The next layer of the cake is a thin insulator, known as a dielectric, which is, in turn, coated with gold. A second circuit pattern is then carved out of the gold, using microcontact printing lithography. Islands of pentacene (which will form the transistors) are deposited on top of this by spraying the polymer through a mask.

Once the result has dried, it is coated with an electrically conductive adhesive, dusted with E Ink spheres, and iced with a second layer of ITO which, being transparent, allows the spheres to be seen. The result is a flexible sheet that is 12.5cm square and has 256 pixels. Considerable improvements in resolution, range of colours, and speed of switching are expected. Such displays could open up enormous possibilities in both consumer electronics and publishing. The printed article you are looking at may never be the same again.

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The genetics of lateralisation

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CHIMPANZEES are an indecisive bunch. Humanity's nearest relatives are just as likely to peel a banana with their left hand as with their right. People, on the other hand, usually have a preference. About 90% will tackle such fiddly tasks with their right hands.

The reason for the difference lies in the way that human brains are wired up. At some point in the past, humanity's ancestors developed "lateralised" brains, in which the different sides became specialised for particular jobs. That accounts for left- and right-handedness. It also explains why, in most people, linguistic functions are concentrated on the left side. Why this split happened—and when—has long puzzled scientists. Recent research suggests that it could be associated with the peregrinations of a single gene.

Protocadherin is one of the proteins that guide the development of nerve cells. The gene (known as PCDH) that carries the blueprint for making this protein was identified last year by Nabeel Affara and his colleagues at Cambridge University. In great apes this gene is found only on the X chromosome (of which females have two, and males only one). In people, though, as Dr Affara discovered, it is found also on the Y chromosome, which occurs only in males. So, some time in the 6m years since the common ancestor of people and apes was around, a bit of the X chromosome has attached itself to the Y. That has allowed human PCDH to evolve into two separate versions—the details of which are the subject of a forthcoming paper.

Most significantly, the two versions, known as PCDHX and PCDHY, respond differently to a chemical called retinoic acid that is involved in embryonic development. The activity of PCDHY is stimulated by this substance; that of PCDHX is suppressed. This is almost certainly one of the explanations for the differences between the brains of men and women. But does it also explain lateralisation?

Tim Crow, a psychiatrist at Oxford University, believes that it does. He has argued for several years that the relative development of the two hemispheres is influenced by a gene located on both the X and the Y chromosomes. Women who lack an X chromosome (and who thus suffer from Turner's, or XO, syndrome) have deficiencies in their spatial abilities. These abilities are concentrated in the "non-dominant" hemisphere (ie, the right one in right-handed people, and the left one in the left-handed). Men with an extra X chromosome (Klinefelter's, or XXY, syndrome) have poor verbal skills. Language is the province of the dominant (usually, left) hemisphere.

PCDH thus makes a perfect candidate for Dr Crow's asymmetry gene, especially since its appearance on the Y chromosome post-dates the split with the apes. Indeed, some evidence based on an understanding of the rate at which DNA changes (see article) suggests that the leap from X to Y may have happened about 3m years ago—the time when humanity's ancestors first started using stone tools.

Dr Affara now plans to test the lateralisation theory by looking for abnormalities in PCDH in people who have problems with other asymmetrically distributed functions. He will also examine whether PCDH has any role in another uniquely human phenomenon—schizophrenia. If so, it may go some way to proving one of Dr Crow's other theories—that madness is the penalty people pay for free speech.

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Two rode together

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From The Economist print edition

They were mocked in their time, but two very different men, one American, one British, changed their parties' and their countries' politics

BEFORE THE STORM: BARRY GOLDWATER AND THE UNMAKING OF THE AMERICAN CONSENSUS
By Rick Perlstein

Hill & Wang; 671 pages; $30.

Buy it at
Amazon.com
Amazon.co.uk

KEITH JOSEPH
By Mark Garnett and Andrew Denham

Acumen; 480 pages; $39.50 and £25

Buy it at
Amazon.co.uk

"IN YOUR heart you know he's right," chanted the supporters of Barry Goldwater, the Republican loser in the 1964 American presidential election. "In your guts you know he's nuts," countered the Democrats. A decade later, in Britain, similar doubts were cast on the sanity of Sir Keith Joseph, and not just by his political opponents. One top Tory, Reginald Maudling, called him "as nutty as a fruit cake"; another, Lord Hailsham, said he was "clever, even brilliant" but also "dotty".

EPA

Don't shoot, I'm a conservative

The objects of ridicule had the last laugh. Both Goldwater (above) and Joseph (below) challenged the post-war consensus about the role of the state by advocating right-wing ideas that seemed sure to consign them to the political fringe. Both lived to see mainstream politicians coming round to their way of thinking, on welfare and the economy. Their dismal view of state action swept first their own parties, then their countries. It is now hardly contentious to oppose egalitarianism as they did, or to share their belief that the free-market approach is almost always superior to the "statist" one (Goldwater excepted the dams, military spending and other federally financed projects that benefited his state of Arizona).

Hulton Getty

The story of how Goldwater and Joseph did it is told in these two books by writers obsessed by the minutiae of advocacy, policymaking and electioneering. Rick Perlstein devotes only a few pages to Goldwater's early life as the spoiled son of a Jewish dry-goods merchant in Phoenix who had converted to Episcopalianism and was rich enough to employ a nanny, a chauffeur and a live-in maid. The rest of "Before the Storm" is given over to Goldwater's public life, and to a blow-by-blow, feint-by-feint account of the election that saw him buried in a 43m to 27m vote landslide by Lyndon Johnson.

Goldwater was not depressed. When, early in the campaign, he realised that he was destined to lose, he decided to be true to himself. Time and again he vexed his financial backers and campaign advisers by floating ideas that he knew

would cost him votes. He laughed at cotton subsidies and mocked the hallowed Tennessee Valley Authority. He attacked the Johnson administration's war-on-poverty programme in West Virginia, the land of the tar-paper shack and the gap-toothed smile. He shocked the suburbs as well as the inner cities by calling for the partial privatisation of social security.

The power of a good point

By then Goldwater was intent on the right winning elections in the future, not the election of 1964. Mr Perlstein, an American liberal and an unsympathetic biographer, sadly concludes that he succeeded in this quest. By saying the unsayable in a presidential campaign, and helping to persuade the upwardly mobile to contemplate parting electoral company with those they had left behind, Goldwater had shifted the political centre of gravity to the right and acted as a trailblazer for the eventual seizure of the White House by a right-wing Republican. Two years after Goldwater's own presidential bid had ended in seeming calamity, the man who had put his name into nomination at the Republican convention, Ronald Reagan, defeated a centrist Democrat to become governor in the bellwether state of California.

A similar turn of ideological fortune was witnessed not long after in Britain. Keith Joseph, a cabinet minister in the Heath and Thatcher governments, also had a privileged background. He was born into a family whose wealth was founded on interests in Lyons' tea shops, Bovis the builders and 26,000 acres (10,000 hectares) of farmland in Southern Rhodesia, now Zimbabwe. Unlike Goldwater, he was "a minimally observing but maximally acknowledging Jew", and this stood him in good stead in his Leeds North-East constituency where Alwoodley, its most affluent suburb, was vulgarly known as Alyidley.

But whereas Goldwater once confessed, to the *Chicago Tribune*, "Doggone it, I'm not even sure that I've got the brains to be president of the United States," Sir Keith was a certified brain-box, a genuine thinker in politics. A fellow of All Souls College, Oxford, he first absorbed and then became, along with Enoch Powell, the most ardent advocate of the ideas of Friedrich Hayek, Milton Friedman, Joseph Schumpeter and other free-market intellectuals.

After the inflationary Barber boom, the collapse of the Bretton Woods monetary system, the oil-price shocks, and the failed prices-and-incomes policies of the 1970-74 Heath government, Joseph liked to claim that he saw the light and was suddenly—in April 1974—converted to conservatism. Before that, he said, "I had thought I was a conservative but I now see that I was not really one at all."

His biographers, Andrew Denham and Mark Garnett, are frankly sceptical about this road-to-Damascus story. Nor do they disguise their own distaste for his outlook. But they unstintingly admire Joseph's courage. In the face of verbal abuse and bodily threats, struck by flour bombs, eggs and rotten vegetables, he had by February 1977 visited "almost every university in England and Wales" in an effort to change the climate of opinion. Some listened. His speeches enthused existing believers in hard-money policies and persuaded many agnostics at least that there was an economic alternative that might be worth trying.

Joseph's colleague, Powell, was by then devalued by the racist edge to his demagoguery. Joseph avoided this pitfall but lacked the qualities to be a party leader himself. He went on to exercise his influence by winning the ear of Margaret Thatcher. He was called, variously, her mentor, policy guru, Svengali or, for those who regarded him as a mad monk, her Rasputin. Joseph was characteristically undaunted. As he liked to tell his audiences in almost Victorian cadences: "Scorn not the vision; scorn not the idea...Power grows out of the barrel of a gun. A gun is certainly powerful, but who controls the man with a gun? A man with an idea."

Both of these books show that Joseph had a point. In the end spin-doctors and pollsters are only ever a small part of politics. Goldwater's biographer, Mr Perlstein, has even drawn a lesson from the life of his subject for a demoralised American left. In an article earlier this month in the *Nation*, he called for a Democratic presidential candidate in 2004 who would, as Goldwater once did, run against the prevailing wisdom, come what may. Any takers?

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The British empire

The world in red

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From The Economist print edition

SOMERSET MAUGHAM'S George Warburton is the colonial ruler of a remote part of Borneo. He has taken refuge there after losing his inherited fortune (which came from soap manufacture, a fact he hates remembering) on horses and cards. He keeps up with the world of Ascot, Cowes and Monte Carlo by opening his copies of the *Times* exactly six weeks after publication and, of course, turning straight to the column on births, marriages and deaths. His new life turns out to have some unexpected consolations. He falls in love with the subtlety of the people over whom he rules and with the dignity they accord him. He boasts: "I have been on intimate terms with some of the greatest gentlemen in England, but I have never known finer gentlemen than some well-born Malays whom I am proud to call my friends."

ORNAMENTALISM: HOW THE BRITISH SAW THEIR EMPIRE
By David Cannadine

Allen Lane, The Penguin Press; £16.99
Oxford University Press; 264 pages; $25.

Buy it at
Amazon.com
Amazon.co.uk
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Amazon.co.uk

Like Maugham, David Cannadine believes that the British empire revolved around a complicated hierarchy of status (he struggles hard to avoid the word "class") rather than a simple division of race. He makes his case with all his customary zest and with a wealth of, often very funny, illustrative detail.

However, for all his insistence on complexity, Mr Cannadine's generalisations are sometimes too sweeping and a chapter on "Exceptions", in which he produces an equally sweeping set of counter-examples, is a case of "*thèse, antithèse, foutaise*". There is little here about the infinite gradations that divided earls from dukes, elder sons from their brothers, established titles from ones of recent creation and Haileybury from Eton. A heartbreaking passage in the memoirs of R.A. Butler, a child of empire if ever there was one, describes his failing the Eton scholarship (the mere fact that his family wanted a scholarship would have told the discerning something about his origins) and being consigned to the outer darkness of Marlborough school and Pembroke College, Cambridge. Curiously, given that Mr Cannadine helped to popularise the notion of "invented tradition", he sometimes seems to view the proliferation of honours that began in the late 19th century as the expression of something rooted in the British past. He seems to assume that the status distinctions of the Indian Civil Service (an exam-based meritocracy) somehow sprang full-grown from the habit of rewarding Whig landowners with earldoms.

In some ways, it is deceptive to separate race and status in the empire. The British view of race was often as subtle and complicated as their view of status and the two hierarchies sometimes intersected—in their conceptions of hereditary aristocracy and "breeding", for example. The fact that the British did not see matters in black and white does not mean that they were indifferent to race. On the contrary, the British granted Arabs or high-caste Indians a degree of respect that would never have been accorded to natives, however "well-born", of sub-Saharan Africa. The relative courtesy with which the British treated Nehru owed something to the fact that he had been educated at Harrow and Trinity College, Cambridge, but it also owed something to the fact that he had pale skin.

Nehru, in many ways, marked the end of empire and here again Mr Cannadine presents the division too clearly. He talks of newly independent states that rejected hierarchy at the same time as they rejected imperial rule. Perhaps the problem here is that Mr Cannadine looks for too sharp a break. The "gothic" complexity of late Victorian hierarchies extended beyond aristocracy or monarchy or formal honours. It could be found at the Bar, in the public schools, the church and the army and all these continued to have an influence on former colonies. Anyone who has dined at the Royal Bombay Yacht Club or strolled on the playing fields of Derha Dun will wonder whether the British really did take "ornamentalism" back to Britain with them when they left.

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Russian theatre

Distilled lives

Apr 26th 2001
From The Economist print edition

IT IS a common misconception that the special status—and spiritual power—of theatre in Russia came from political struggle against totalitarian regimes. As Inna Solovyova, a renowned theatre historian, points out, the power of Russian theatre before, during and after the Soviet era came, in fact, from its ability to complement rather than to copy life and to compensate for its brutality by creating a parallel reality. Indeed the best productions of the Soviet era—the ones most hated by the censors—rose above ideology and politics, which was itself a form of aesthetic opposition.

Pyotr Fomenko and Lev Dodin, two of the most prominent directors working in the Russian theatre today, have taken on the challenge of political freedom, and won, precisely because they continue to complement life regardless of political system. Neither man is engaged in politics although both have an acute sense of the country's past and present; both, in their different ways, wrestle with the fundamental questions of life and death which have always been at the core of Russian drama.

Both men refuse to regard theatre as entertainment. Both are also followers of Konstantin Stanislavsky's idea of "super-theatre" and his near-fanatical quest for dramatic truth on stage. The way they regard the world may be diametrically opposed, as are their aesthetics, but they compensate for the deficiencies of modern life even if they see those deficiencies quite differently.

In the context of the ostentatious, uplifting and self-assured art that is emerging in Russia—typified by Nikita Mikhalkov's "The Barber of Siberia", a Hollywood-style attempt to invent a mythological past for a country which has never come to terms with its real history—Mr Dodin is one of the few Russian artists who have the courage to show the darkest and the most tragic sides of the nation's history. His productions, staged at the Maly Drama Theatre in St Petersburg, of which he is the artistic director, tell the story of the collective self-destruction and ideological suicide to which Russian people subjected themselves in the 20th century. The essence of these epic stagings, some of which last for up to ten hours, is how they make up for the lack of tragedy in modern Russian culture.

A Jew born in Siberia, the son of a geologist, Mr Dodin began his dramatic excavation of Russian history nearly 20 years ago with "The House" and "Brothers and Sisters", which were adapted from the novels by Fedor Abramov, a post-Stalin writer who died in 1983. In contrast to the constant cheeriness of Soviet images, Mr Dodin showed the tragedy and self-destruction of the Russian village after the second world war. The contrast was made all the more poignant by the projection of one of Stalin's classic comedies on to the gaunt yet joyful faces of Abramov's villagers whom Stalin once biblically addressed as *bratya i sestry*, brothers and sisters. "The nation was engaged in self-destruction with a sense of hope in the nearing paradise which should have justified and redeemed all sacrifices," Anatoly Smelyansky, a well-known critic, wrote in 1999. This was Russia's tragedy, grounded in everyday life and dressed in jerkins and wartime leather boots.

Mr Dodin's exploration reached its peak in a recent production of "Chevengur". Adapted from a novel by Andrei Platonov about a band of political idealists who travel to a utopian city called Chevengur where communism is being expanded at an accelerated pace. The production shows what happens when people become possessed with an idea of total equality, and how they come to sacrifice themselves and others in the name of this ideal. In the last scene, a mass suicide, the idealists, having already disposed of everyone who was insufficiently prepared for life under communism, walk naked into water carrying heavy rocks. But in a world where the laws of physics no longer apply, the bodies sink to the bottom of the muddy water and the rocks float.

Like Mr Dodin, Mr Fomenko has no illusions about his country's bloody past and is well aware of its present dangers. "People are in a very bad shape," he says in his characteristically deep and quiet voice. In contrast to Mr Dodin, though, Mr Fomenko's sense of the world is philosophical and poetic rather than tragic. In his studio-size Theatre-Workshop, which is tucked away just off the Kutuzovsky Prospect, one of Moscow's busiest highways, Mr Fomenko provides consolation and respite from the cynicism which has swamped Russia in the past ten years. Mr Fomenko's poetic productions, played by his former drama

pupils, are filled with sincerity and affection for life which are in equally short supply.

Having survived several heart attacks, Mr Fomenko, who is now 69, accepts life as it comes, however short or unfair. This may explain why he was drawn, in two of his recent productions, to the novels of Leo Tolstoy. Mr Fomenko's "War and Peace", which focuses on the early chapters before the war, is rich in the small details of daily life while at the same time never letting you forget that war and death can be close at hand.

In "One Absolutely Happy Village", based on a novella by Boris Vakhtin, Mekheev falls in love with Polina and marries her the day he goes to war. Inevitably, Mekheev dies. When he reaches heaven—a straw-made sky above the stage—he sets to telling Polina to find another husband to help her with daily chores. And so she does, because that is all part of life.

The stage world of the "Village" is filled with quotidian sounds—women washing clothes, a cow mooing, an old popular song. But every-day life in Mr Fomenko's productions always rises to poetic heights. That is his greatest talent, just as it is Mr Dodin's to extract tragedy from the reality of Russian life. The two directors complement each other. Mr Fomenko's work offers a dose of oxygen in a polluted Moscow atmosphere whereas Mr Dodin's audiences often leave the theatre in anguish. If a patient stops feeling the pain, though, no amount of oxygen will help.

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The economics of motherhood

No apple pie

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NO AMERICAN woman in her right mind would want to become a mother. Having achieved a notional equality with men—at least if she is young, educated and working in a professional job—she will lose it again at a stroke. Instead, she faces a range of highly unattractive options. If she decides to "have it all"—career, lifestyle, baby, the lot—she will have to go back to work full-time almost immediately after the birth. She will get no paid maternity leave and she will have to convince her bosses that she is still committed to the job. She will then find herself working twice as hard as before: putting in a full day at work and then a "second shift" (in the memorable phrase of Arlie Hochschild, an American sociologist) with the baby.

THE PRICE OF MOTHERHOOD: WHY THE MOST IMPORTANT JOB IN THE WORLD IS STILL THE LEAST VALUED
By Ann Crittenden

Metropolitan Books; 323 pages; $25

Buy it at
Amazon.com
Amazon.co.uk

If she wants to switch to an easier work schedule, she will probably be put on a "mommy track"—boring tasks, less responsibility, no promotion prospects and much less money. If she wants to take a break while her child is young, she will lose all credibility in the labour market and become a kept woman. And if her marriage goes to pieces (and half of them do), she and her child will end up on the breadline because she can expect little or no support from her husband. It seems an appalling deal, yet astonishingly millions sign up for it. Are they complete fools?

Ann Crittenden exaggerates, which is a pity, because she is making an important point. Being a working mother in America is no cookie bake. In matters of maternity leave, taxation, child care and legal rights, European women do much better. Perhaps even more serious (although Ms Crittenden does not make much of this), Americans of either sex, whether parents or not, generally work far longer hours and get far shorter holidays than Europeans, which makes it that much harder to combine job and children. Enlightened self-interest alone suggests that some of these obstacles be removed: America would suffer a dire labour shortage if its women did not go out to work, but it is also as worried as the next rich country about its ageing population.

Yet even if working mothers do get more recognition and help, as they do in many European countries, they still find it hard to combine children with a high-powered career. The share of women in the top echelons of business, the professions and academia is tiny on either side of the Atlantic. Childlessness among highly successful women is much more common than among the rest. And many women (as well as quite a few men) feel that the rewards for reaching the top do not justify the effort. There are no easy solutions, in America or anywhere else.

The answer to Ms Crittenden's more specific question—why is it that motherhood is so systematically undervalued—seems rather less difficult. The author herself blames a series of interlocking conspiracies—by government, by business, but most of all by men everywhere—that make it impossible for mothers to get proper recognition for enhancing the country's human capital. But is not the more obvious answer that almost anyone can have children, and most people do? Many, perhaps most, make a fair or even wonderful job of it. But others don't, and short of gross abuse there is no quality control to stop them making a mess of it.

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What the world is reading

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DO LISTS of bestselling novels have anything to say about the literary predilections of such geographically and culturally remote nations as America, Britain, Germany and Italy? Do they reveal striking differences or deeper affinities? The easy answer is both.

In Britain and America, the Harry Potter books are ranked separately, which leaves these lists chock-full of thrillers and novels about messy relationships. Nobody can write a spooky twist like Stephen King. “Dreamcatcher”, the horror maestro’s first novel in three years, is a return to the form of his earlier classics. It tops the American list and is third in Britain.

Harry Potter took his time being translated into German and Italian, but once done, HP sorcery proved as popular with continental children as those elsewhere. Two books from J.K. Rowling’s masterwork—“Harry Potter and the Goblet of Fire” and “Harry Potter and the Philosopher’s Stone”—are bestsellers in Italy, while the four books claim all the top places on the German list. German readers also have an overwhelming weakness for thrillers, with John Grisham, Henning Mankell, a Swedish writer, and John le Carré stacking up in fifth, sixth and seventh places. In Italy the most popular subjects are feminism and archaeology. Italians seem just as happy reading their own authors, especially Antonio Tabucchi who tops the list, as foreign writers. Strikingly, the German list has only one book by a home author, Ingrid Noll, Germany’s answer to A.S. Byatt: she writes dark but funny battle-of-the-sexes fiction in which women usually win.

Bestsellers

	American fiction	British fiction
1	Dreamcatcher *by Stephen King* Supernatural thriller	Warlock *by Wilbur Smith* Egyptian thriller
2	1st to Die *by James Patterson* Gruesome thriller	1st to Die *by James Patterson* Gruesome thriller
3	A Painted House *by John Grisham* Non-legal non-thriller	Dreamcatcher *by Stephen King* Supernatural thriller
4	The Bonesetter's Daughter *by Amy Tan* Chinese-American family drama	The Falls *by Ian Rankin* Latest Rebus mystery
5	The Villa *by Nora Roberts* Intrigue in the Napa Valley	Bridget Jones's Guide to Life *by Helen Fielding* The next best thing to Socrates
6	Scarlet Feather *by Maeve Binchy* Irish family drama	Five Quarters of the Orange *by Joanne Harris* From Chocolat to citrus
7	The Skies of Pern *by Anne McCaffrey* Latest in Dragonriders series	Out of the Blue *by Isabel Wolff* Marital shake-ups
8	Potshot *by Robert B. Parker* Spenser v The Preacher	The Boy Next Door *by Josie Lloyd and Emlyn Rees* Old feelings rekindled, new problems arise
9	Slightly Shady *by Amanda Quick* Lemonade and suspense	Death in Holy Orders *by P.D. James* Bad guys in cassocks
10	The Last Time They Met *by Anita Shreve* Passionate thriller	A Little Learning *by Caro Fraser* Love on the rocks

	German fiction	Italian fiction
1	Harry Potter und der Feuerkelch *by J.K. Rowling* Harry in wizard tournament	Si sta facendo sempre piu tardi *by Antonio Tabucchi* Epistolary novel
2	Harry Potter und die Kammer des Schreckens *by J.K. Rowling* More Harry and more wizardry	Figli del Nilo *by Wilbur Smith* Egyptian thriller
3	Harry Potter und der Stein der Weisen *by J.K. Rowling* Harry starts wizard school	Harry Potter e la pietra filosofale *by J.K. Rowling* Harry starts wizard school
4	Harry Potter und der Gefangene von Askaban *by J.K. Rowling* Convict on the run after trainee wizard	La versione di Barney *by Mordecai Richler* Rambling fictionalised memoir
5	Die Bruderschaft *by John Grisham* Blackmail at the highest level	Nostra signora della solitudine *by Marcela Serrano* Mexican feminist thriller
6	Der Mann, der lächelte *by Henning Mankell* Swedish thriller	Incas - l'ombra del puma *by Antoine B. Daniel* History of the Conquistadors
7	Der ewige Gärtner *by John le Carré* Diplomat takes on pharmaceutical giant	Harry Potter e il calice di fuoco *by J.K. Rowling* Harry in wizard tournament
8	Schlangenlinien *by Minette Walters* Psychological thriller	Il nespolo *by Luigi Pintor* The joys of doing nothing
9	Selige Witwen *by Ingrid Noll* Two widows have an adventure	Rispondimi *by Susanna Tamaro* Three short stories from female perspectives
10	Handbuch des Kriegers des Lichts *by Paulo Coelho* Searching for love	Chimaira *by Valerio Massimo Manfredi* Archaeological adventure

Sources: Whitaker BookTrack; *La Repubblica; Focus; Publishers Weekly* Descriptions by *The Economist*

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Architectural guides

House hunting

Apr 26th 2001
From The Economist print edition

THEY called him the Doc. He was a German scholar who launched himself in 1933, among charming but undirected English amateurs, into the torpid field of architectural history. Nobody could have called Nikolaus Pevsner undirected. Had the phrase “workaholic” been current before his death in 1983, it would have suited him perfectly. Posterity has divided over the legacy of his ideas as a writer and teacher. But even his harshest critics cannot deny his achievement in writing Britain’s first complete series of architectural guidebooks, “The Buildings of England”, which celebrates its 50th anniversary this year.

The series began in 1951 with a slim volume on Cornwall, impeccably designed by a fellow German émigré, Hans Schmoller, for Penguin Books. England was completed with Staffordshire in 1974, and the owlish author was photographed, beaming down from a pile of volumes, some bulkier than others and requiring large pockets for those who might drive from one parish church to another, ticking off “Font: Norman, circular, with a large foliage scroll along the top of the bowl and four circular motifs of trees of life below”, and similar terse entries.

Grand though the project was, the early guides did not win universal praise. Occasionally wit or charm flashes through them, but the English countryside is a treacherous place. Pevsner, a funny foreigner in a shabby mackintosh, was ill at ease in country houses, and he sometimes omitted to penetrate up their drives, leaving certain treasures overlooked. He had blind spots, particularly for 20th-century buildings which did not meet his initially rather rigid criteria for what constituted “modern”. Writing “The Buildings of England”, working as a joint editor for the *Architectural Review* and networking among the more advanced architects of his day, Pevsner in the 1960s played a significant part in the promotion of modernist architecture in Britain.

When fashion turned, Pevsner was among those singled out for intellectual blame. In 1977, one of his doctoral pupils, David Watkin, a fellow of that most conservative of Cambridge colleges, Peterhouse, wrote a plea for tradition in building called “Morality and Architecture” (to be reissued by John Murray in June). His sharpest complaint was that, true to a German historicist training, Pevsner defended modernist styles willy-nilly on the discredited ground that they fitted a supposed spirit of the age.

This writer recalls Pevsner’s Friday lectures in Cambridge after his retirement as Slade professor. He gave a wonderful sense of collusion with his audience, as if reminding us all of something we surely knew, which might just have slipped our minds. But the content was rather too pat, and lacking in intellectual adventure as well as sensual reward. These dogmatic quarrels are a long while ago now, and the original hard edges have been sanded down. Pevsner has become almost a cultural brand, especially with the BBC broadcast of “Travels with Pevsner” in 1997. His scholarship probably was broader than deep, but his shortcomings as a historian proved to be virtues in a guidebook writer.

The miracle of Pevsner was that he kept up the largely unpaid work on “The Buildings of England” long enough to go once round the country and train a team of younger scholars to make revisions. This achievement was enough to win him absolution even from his most doctrinal foes. Several more miracles have occurred since then. His successor as general editor, Bridget Cherry, has developed the series without losing its authority. Penguin is still the publisher, but the series is run by an independent trust, which is energetically raising funds to keep the work going.

The latest volumes, including four indispensable guides to different parts of London (two more to come), have more maps, more buildings and more tolerance of misfits in history than the much slimmer volumes they replace. As the series has expanded to cover Wales, Scotland and Ireland, different priorities and methodologies have evolved. It may be that in another 50 years, few of the Doc’s actual words will remain in the books. But these, we should hope, will still bear his name, and the ghostly 1933 Wolseley Hornet—in which he was driven about while scribbling in the passenger seat—will continue to haunt the lanes of England.

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Pevsner's foreign rivals

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THE scale of Nikolaus Pevsner's achievement can be seen by asking what other countries have such an architectural series? Austria and Germany have the guides inspired by Georg Dehio, whose five-volume handbook was originally completed in 1912, and so no use for the 20th century. Ernst Gall updated it in 1935, and in 1965 a thorough revision was begun, supported by the Dehio-Vereinigung in Munich and published by Deutscher Kunstverlag.

The art and architecture of the regions of Italy are excellently served by the detailed and comprehensive guides published by the Touring Club of Italy, some of which are translated into English. They are recognisable by their gold brassing and handsome red covers. France and Spain have nothing of this calibre.

Good street-by-street guides exist for the buildings of some American cities. But till now the only proper guides to the states were those sponsored in the 1930s by the Federal Writers' Project, and these were not specifically architectural. Now, however, inspired by Pevsner, the Society of Architectural Historians and Oxford University Press (www.sah.org/bus.html) are putting out "Buildings of the United States". Alaska, Colorado, Iowa, Michigan and Washington, DC, are done. Another 53 volumes are planned.

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Italian politics

Counterattack

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From The Economist print edition

L'ODORE DEI SOLDI: ORIGINI E MISTERI DELLE FORTUNE DI SILVIO BERLUSCONI.
By Elio Veltri and Marco Travaglio.
Editori Riuniti; 347 pages; 24,000 lire.

PCI: LA STORIA DIMENTICATA.
By Sergio Bertelli and Francesco Bigazzi.
Mondadori. 490 pages; 38,000 lire.

IL LIBRO NERO DEL CRISTIANESIMO: DUEMILA ANNI DI CRIMINI NEL NOME DI GESU.
By Jacopo Fo, Sergio Tomat and Laura Malucelli.
Edizioni Nuovi Mondi; 346 pages; 35,000 lire

GO INTO a major Italian bookshop and chances are you will see a small grey paperback piled up in nearly every department—in history, humour, current affairs and, most prominently, by the front desk. "L'odore dei soldi" (The odour of money) by Elio Veltri, a surgeon-turned-politician who likes exposing corruption and crime, and Marco Travaglio, an investigative journalist with *La Repubblica*, is a re-examination of some of the key moments in Silvio Berlusconi's financial life. Published by the left-leaning Editori Riuniti, the book has proved so popular in the run-up to Italy's May 13th election that it is easily outselling every other book in Italy, both fiction and non-fiction (see for bestseller lists).

Although it is now well into its second reprint, the book did not start out with a bang. Indeed, it was only after "L'odore dei soldi" was discussed on a late-night television programme broadcast by the state-owned company, RAI—thus incurring Mr Berlusconi's wrath—that sales really took off. Mr Berlusconi has yet to make any official comment about the book's contents, even though it is now selling so well it has pushed his own collected speeches, "L'Italia che ho in mente" (The Italy I have in mind), out of the bestseller list. *Il Cavaliere* is about to get his own back, though. "Una storia italiana" (An Italian story), a Berlusconi family album, will be distributed free to 12m Italian homes by polling day with the help of a sweet deal with the Italian postal service. "Una storia italiana" features such delights as Mr Berlusconi out jogging with his son, Pier Silvio, or working out—in a jacket and tie—in a gym with Sylvester Stallone. Of his divorced wife, Pier Silvio's mother, though, there is no sign.

Two other books that cast a fresh eye on history are also popular. "PCI: la storia dimenticata" (PCI: the forgotten history), by Sergio Bertelli and Francesco Bigazzi, the first a historian and the second a journalist, returns to the well trodden story of the Italian Communist Party. It contains no stunning revelations, but it has succeeded in upsetting many older party members with its suggestion that the massacre at the Ardeatine caves, in which 335 prisoners were shot on the outskirts of occupied Rome in 1944 as a reprisal for a partisan attack on Nazi soldiers, actually helped the underground communist leaders of the time by disposing of some of their more undependable comrades. This interpretation has a contemporary resonance; Mr Berlusconi recently earned the disapproval of many when he described the 1999 political assassination of Massimo D'Antona as a case of "the left settling old scores".

Meanwhile, gaily ignoring all hint of religious correctness, Jacopo Fo, son of the Nobel prize-winning dramatist Dario Fo, has edited and published "Il libro nero del cristianesimo" (Christianity's black book). In it, Mr Fo highlights some of the many errors that the Roman Catholic church overlooked in its jubilee *mea culpa*. Young Mr Fo says the stories his father told him about the Crusades often made him laugh as a boy. But in this book, religious enthusiasm is no laughing matter. Using some of the most gruesome historical illustrations he could find, accompanied by a text that is printed in heavy black type of different sizes, Mr Fo's evening-the-score analysis is provocative, to say the least.

Italy's interest in raking over the past may attract readers, but will it attract voters? The election will depend as much on personal image as on party ideology. Mr Berlusconi offers voters a family album, but his opponent, Francesco Rutelli, is more of a blank page. Lucky for him that no one has thought to reprint the 1996 biography of this former mayor of Rome. Mr Rutelli's wife, Barbara Palombelli, a

journalist and militant feminist, was dismayed to find that her new husband left his discarded washing on the floor. “I promptly hired a maid,” the then new Signora Rutelli told the author. Some people think there is already enough dirty linen being washed in Italian bookshops.

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Chinese-American fiction

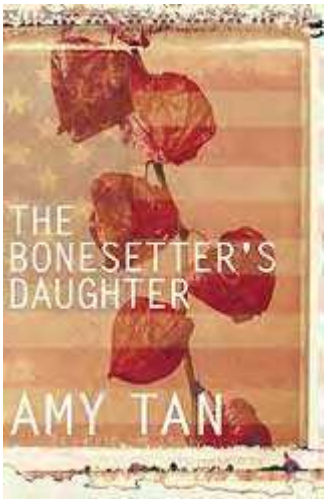
Oh, mama

Apr 26th 2001
From The Economist print edition

THE BONESETTER'S DAUGHTER
By Amy Tan

G. P. Putnam's Sons; 320 pages; $25.95.
Flamingo; £16.99

Buy it at
Amazon.com
Amazon.co.uk



A SPIRIT-RIDDEN past casts its shadow on the present for Amy Tan, a Chinese-American writer who has built a formidable reputation by describing the cross-cultural confusion of her people. In 1999, just as Ms Tan was completing the first draft of her fourth novel, "The Bonesetter's Daughter", the past intruded in a much more immediate way.

Ms Tan's mother died, posthumously revealing secrets that she had spent a lifetime hiding. And what secrets! Ms Tan discovered that she did not know her mother's real name, let alone of the existence of a first husband and half-siblings left behind in China or that her grandmother committed suicide. In response, Ms Tan, who acknowledges using writing as therapy, rewrote the novel, producing a powerful work that functions both as fiction and emotional autobiography.

Firmly set in familiar Tan territory, the novel plays out in both contemporary San Francisco (where the author lives) and in pre-war China in the region, just south of Beijing, where the ancient bones of Peking Man were discovered in the 1920s. One character in Ms Tan's best-selling "The Joy Luck Club" (1988) affirms that "your mother is in your bones" and the physical excavation of our ancestors in this novel is mirrored in the emotional excavation of the plot. Ms Tan is a powerful and sensitive writer, but if she has a fault it lies in her tendency to weigh down every element of her story with meaning. The symbolism of the San Francisco section in particular feels overworked.

Ruth, the novel's daughter figure, is a ghost-writer of self-help books, who does not believe in ghosts and seems unable to take heed of the advice she writes for others. Scornful of the spirits and superstitions of old China that rule her mother's life, Ruth seems unaware of the extent to which she too is controlled by them. She counts her way through the chores of her day, fears disaster which leads her to pump neurotically at the brakes of her car and is afflicted by an annual psychosomatic loss of her voice. Burdened with worries about her ageing mother, LuLing, who seems to be losing her mind, Ruth moves out of the house she shares with her selfish western boyfriend and his two daughters and into her mother's home, which is where the unpacking of secrets begins.

Set against the background of civil war and the Japanese invasion of China, this is a story of beauty and disfigurement, of superstition and ill luck and of the rigid hierarchy which grinds women into their place in the extended family home. Amid the dragon bones and the curses, the opium and the ink-stick making, this is a novel about the terrible bonds that bind families and the power of words over silence. It is also a celebration of the pure formal beauty of a Chinese character painted in the finest ink by a skilled hand.

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Wang Enmao

Apr 26th 2001
From The Economist print edition

Wang Enmao, ruler of China's rebellious province, died on April 12th, aged 88

Xinhua News Agency

WHEN the new jobs were handed out after the Communist victory in China in 1949, Wang Enmao was told to run Xinjiang province. It was an extraordinarily demanding posting. Xinjiang, in China's far north-west, was populated mainly by Uighurs, Muslims who had long had strained relations with the country's majority Han Chinese. Mr Wang had no experience as an administrator. Nor had he had a formal education. He had joined the Communist Party as a teenager, gaining favour with Mao Zedong for his exploits in the guerrilla war against the Nationalists of Chiang Kai-shek. He was with Mao on the legendary Long March of nearly 6,000 miles to escape the Nationalists, in which perhaps only one in ten of the 90,000 marchers survived. Now, at 36, Mr Wang was the novice overlord of a territory three times the size of France, with instructions from Mao to make it secure and prosperous.

Mr Wang was given a friendly welcome. In Xinjiang, as elsewhere in China, the Communists were popular. The civil war was over, the corruption associated with the Nationalists was no more and the Communists had promised freedom to everyone. These were the halcyon days of the party, never to be repeated. When the handshakes were over, the Uighurs asked about independence. Before Mao came to power, they reminded Mr Wang, he had promised regions such as Xinjiang and Tibet that they would be allowed to secede if they wished from a Communist China to form independent states. This had been decided at a workers' congress as long ago as 1931, and had been repeated by Mao several times since.

Mr Wang sought guidance from Mao, who replied that he had never promised self-determination. The Uighurs then asked if Xinjiang could be made a republic, part of a Chinese federation, along the lines of the republics that formed the Soviet Union. Mao said no to this too. For 2,000 years, he said, Xinjiang had been part of an "indivisible" China. The Uighurs' demand was "hostile to history" and indeed "to socialism". Mr Wang conveyed the dismal news to his subjects. His troubles were just beginning.

A degree of freedom

In centralised China provincial governors have only rarely been allowed much freedom of action. One exception is Guangdong, a prosperous province with close relations to Hong Kong with which it shares an independently-minded Cantonese population. Another is Xinjiang. Wang Enmao made the point to his masters in Beijing that Xinjiang was unlike other provinces. Apart from following the teachings of Islam, its people had connections with Kazakhstan and the other "stans" of Central Asia. Had Xinjiang been granted independence it would have called itself Eastern Turkestan.

Mr Wang helped to persuade the government to allow Uighurs (and other minorities) to have two children, instead of the one allowed to other Chinese, before the abortionists moved in. The local languages were tolerated alongside Mandarin. Xinjiang was eventually given the status of an "autonomous region", with partial self-government, and a Uighur as its formal head.

But the Uighurs were unimpressed. By the mid-1950s there were frequent demonstrations in the capital, Urumqi, against the Communists, and they have continued ever since, sometimes ending in violence. Recently, bombs set off in Beijing have been blamed on Uighurs, although they say they confine themselves to peaceful protest.

Uighur anger has grown with the transmigration of some 6m Han Chinese to Xinjiang to help develop the region, which the Communists have discovered is rich in minerals. Of today's population of about 13m only about half are thought to be Uighurs or other Muslim groups. After the Soviet Union broke up in

1991, ending Moscow's firm control over Central Asia, Mr Wang became alarmed at the possibility of Muslim hordes invading Xinjiang in support of their brethren, threatening China's hold on the region. There were stories, unconfirmed, that Osama bin Laden, a Muslim militant, was planning to move into Xinjiang to start a holy war against Chinese rule. Mr Wang's sympathy for the Uighurs clashed with concern about the future of Xinjiang. In 1992 he called for "a great iron wall" to be built along China's border with its Central Asian neighbours.

By then Mr Wang had retired as governor of Xinjiang. His long rule of the province had been interrupted for a decade or so after he was attacked in 1967 by "red guards", the hooligans Mao encouraged to target "reactionaries" as part of the cultural revolution. Mr Wang was accused of following the "bourgeois line". In 1981 he was again running Xinjiang, seen as the best man to deal with Uighur unrest. Into his 80s Mr Wang held honorary posts in the party and the army. His last public appearance was in November 1997 when with other veterans he was taken on a tour of Hong Kong, now re-embraced by the motherland. China always seems reluctant to let go of its old heroes. The legitimacy of Communist rule is based on conquest over half a century ago. Wang Enmao dutifully did his bit to sustain that claim to his last gasp.

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OUTPUT, DEMAND AND JOBS

Apr 26th 2001
From The Economist print edition

Growth in Japan's GDP in the fourth quarter was revised down from 0.8% to 0.7%, fuelling fears of a return to recession. Industrial-production growth in the euro area slowed to 3.8% in the 12 months to February. In March, British retail sales recorded the lowest monthly rise in a year, bringing the annual rate of increase down to 4.8%.

% change at annual rate	GDP		The Economist poll GDP forecasts		Industrial production		Retail sales (volume)	Unemployment % rate	
	3 mths†	1 year	2001	2002	3 mths†	1 year	1 year	latest	year ago
Australia	− 2.2	+ 2.1 Q4	+ 2.3	+ 3.9	+ 0.8	+ 3.1 Q4*	− 0.1 Q4	6.8 Mar	6.8
Austria	+ 1.7	+ 2.6 Q4	+ 2.3	+ 2.5	na	+ 9.3 Jan*	− 1.3 Dec	3.7 Feb	3.6
Belgium	+ 4.9	+ 3.1 Q4	+ 2.6	+ 2.7	na	+ 3.8 Feb*	+ 7.1 Jan	10.3 Mar*	10.6
Britain	+ 1.4	+ 2.6 Q4	+ 2.4	+ 2.7	− 2.6	+ 1.0 Feb	+ 4.8 Mar	5.2 Feb‡	5.8
Canada	+ 2.6	+ 4.0 Q4	+ 2.2	+ 3.3	− 1.2	+ 1.2 Jan	+ 3.9 Jan	7.0 Mar	6.8
Denmark	+ 4.9	+ 1.1 Q4	+ 1.9	+ 2.2	na	+ 4.3 Jan	− 0.6 Feb	5.4 Feb	5.3
France	+ 3.9	+ 2.8 Q4	+ 2.6	+ 2.7	+ 2.1	+ 2.4 Feb	+ 0.1 Feb	8.8 Feb	10.2
Germany	+ 0.8	+ 1.9 Q4	+ 2.1	+ 2.6	+ 7.4	+ 4.7 Feb	− 6.7 Feb	9.3 Mar	10.1
Italy	+ 3.2	+ 2.7 Q4	+ 2.2	+ 2.5	+ 5.3	− 1.5 Feb	− 0.5 Feb	9.9 Jan	11.2
Japan	+ 3.0	+ 2.8 Q4	+ 0.5	+ 1.3	− 2.9	− 2.1 Feb	+ 1.8 Jan	4.7 Feb	4.9
Netherlands	+ 3.8	+ 2.8 Q4	+ 2.9	+ 3.1	+ 2.5	+ 1.9 Feb	+ 2.5 Jan	2.4 Feb§	2.8
Spain	+ 2.9	+ 3.7 Q4	+ 3.0	+ 3.3	− 1.2	− 3.5 Feb	na	13.7 Feb	15.0
Sweden	+ 2.4	+ 2.6 Q4	+ 2.7	+ 3.0	na	+ 6.2 Feb	+ 4.9 Jan	3.9 Mar*	5.1
Switzerland	+ 1.8	+ 2.5 Q4	+ 2.0	+ 2.2	na	+ 5.0 Q4*	+ 4.9 Jan	1.8 Mar*	2.3
United States	+ 1.0	+ 3.4 Q4	+ 1.4	+ 3.0	− 4.7	+ 0.8 Mar	+ 1.5 Feb	4.3 Mar	4.0
Euro area	+ 2.8	+ 3.0 Q4	+ 2.4	+ 2.7	+ 5.3	+ 3.8 Feb	+ 2.3 Jan	8.7 Feb	9.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*								
Finland	+ 3.0	+ 5.5 Q4	na	na	− 8.1	+ 6.8 Feb	+ 3.8 Jan	9.6 Mar*	11.2
Greece	na	+ 2.5 2000	na	na	na	+ 3.1 Nov	+ 6.0 Nov	na	na
Iceland	na	+ 4.4 1999	na	na	na	+ 4.2 1999	na	1.3 Jan	1.5
Ireland	na	+11.0 Q3	na	na	na	+34.1 Feb*	+ 4.6 Jan	3.6 Mar	4.3
Luxembourg	na	+ 8.5 2000	na	na	na	+ 0.6 Dec*	+ 9.4 Nov	2.8 Jan	2.6
New Zealand	+ 2.2	+ 1.6 Q4	na	na	na	+ 0.9 Q4*	+ 7.3 Q4	5.6 Q4	6.3
Norway	+ 0.2	+ 0.9 Q4	na	na	+ 3.5	− 0.3 Jan	− 2.4 Feb	3.1 Q4	3.2
Portugal	+ 5.1	+ 3.4 Q3	na	na	na	+ 3.6 Feb*	+ 4.6 Jan	3.8 Q4	4.1

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate. ‡Dec-Feb; claimant count rate 3.3% in March. §Dec-Feb.

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COMMODITY PRICE INDEX

Apr 26th 2001
From The Economist print edition

Encouraged by a federal loan policy that favours soyabeans, American farmers are planting another record crop this year, forecast at 74m tonnes. The policy is part of the 1996 farm bill, which is due to be replaced this year. Brazil and Argentina are also harvesting between them a record 62m tonnes this season. Fortunately China is helping to mop up the glut. Its soyabean imports should reach 10.2m tonnes this season, a new record. But China is expanding its domestic crushing capacity, and imports of soya products are falling. Imports of meal will fall by two-thirds, and of oil by half, in 2000-01. That is bad news for America's crushers, who also face competition from the lower-cost industry in Latin America; many mills are closing.

1995=100	Apr 17th	Apr 24th*	% change on one month	% change on one year
Dollar index				
All items	69.4	69.7	+ 0.3	– 5.9
Food	67.2	66.8	– 2.7	– 8.5
Industrials				
All	72.4	73.6	+ 4.4	– 2.5
Nfa†	70.2	72.2	+ 9.8	– 1.2
Metals	74.3	74.8	+ 0.4	– 3.5
Sterling index				
All items	76.5	76.5	+ 0.4	+ 3.5
Food	74.1	73.3	– 2.6	+ 0.6
Industrials	79.8	80.9	+ 4.5	+ 7.3
Euro index				
All items	103.5	102.5	+ 0.3	– 2.4
Food	100.3	98.2	– 2.8	– 5.1
Industrials	108.0	108.3	+ 4.3	+ 1.2
Yen index				
All items	91.4	90.6	– 0.4	+ 8.8
Food	88.5	86.8	– 3.5	+ 5.7
Industrials	95.3	95.7	+ 3.6	+ 12.8
Gold				
$ per oz	260.85	263.45	+ 0.5	– 5.8
Crude oil North Sea Brent				
$ per barrel	27.64	25.69	– 0.8	+ 8.2
West Texas Intermediate				
$ per barrel	27.79	26.88	– 2.3	+ 7.1

* Provisional. † Non-food agriculturals.

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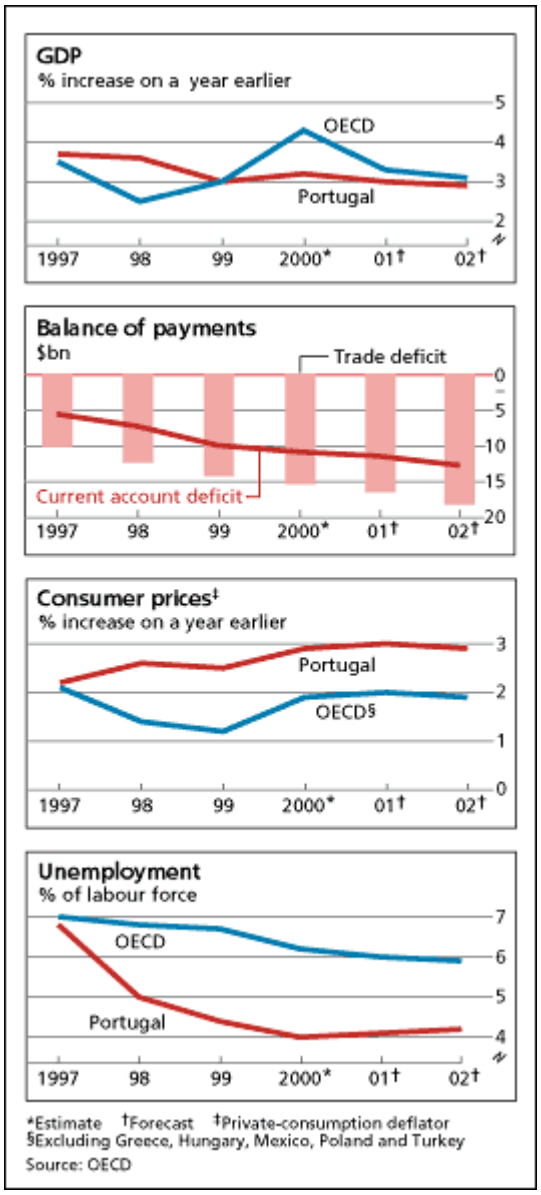
PORTUGAL

Apr 26th 2001
From The Economist print edition

The OECD reports that Portugal's strong economic performance continued last year. Between 1995 and 2000, GDP growth averaged 3.5%—a percentage point higher than the euro area's average. However, the OECD detects some "warning signals". The gap between output and capacity has narrowed, and the current-account deficit has widened to 10% of GDP. Households show some evidence of cutting their borrowing, but the government could do more to trim its own debt; although the budget deficit is small, this is largely thanks to buoyant economic conditions. Tax revenues have jumped to meet fast-rising spending, especially on health care, public-sector pay and social security. The OECD calls the government's goal of budget balance by 2004 "unambitious".



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PRICES AND WAGES

Apr 26th 2001
From The Economist print edition

The euro area's consumer-price inflation stayed at 2.6% in March. Inflation slowed to 2.5% in Canada, which could offer scope for further interest-rate cuts to combat the slowdown. German workers received wage increases of 2.4% in the year to February—a real pay cut of 0.2%. Australian producer prices rose by 5.2% in the year to the first quarter.

% change at annual rate	Consumer prices*		The Economist poll consumer prices forecast		Producer prices*		Wages/earnings	
	3 mths†	1 year	2001	2002	3 mths†	1 year	3 mths†	1 year
Australia	+ 4.3	+ 6.0 Q1	+ 3.5	+ 2.3	– 4.9	+ 5.2 Q1	– 2.8	+ 5.1 Q4
Austria	na	+ 2.7 Mar	+ 1.8	+ 1.4	– 0.2	+ 2.7 Mar	+ 5.4	+ 2.6 Feb
Belgium	+ 0.8	+ 2.1 Mar	+ 1.9	+ 1.8	– 9.9	+ 4.3 Feb	+ 3.7	+ 1.6 Q4
Britain	– 0.5	+ 2.3 Mar	+ 2.0	+ 2.3	– 2.7	+ 0.8 Mar	+10.5	+ 5.0 Feb
Canada	+ 1.7	+ 2.5 Mar	+ 2.3	+ 2.0	– 0.9	+ 2.6 Feb	+ 0.5	+ 0.2 Jan‡
Denmark	+ 1.7	+ 2.3 Mar	+ 2.3	+ 2.2	– 2.2	+ 3.0 Mar	+ 3.7	+ 3.8 Q4
France	– 0.1	+ 1.3 Mar	+ 1.4	+ 1.4	– 3.1	+ 3.4 Feb	+ 2.6	+ 5.0 Q4
Germany	+ 4.3	+ 2.5 Mar	+ 1.8	+ 1.3	– 0.1	+ 3.3 Mar	na	+ 2.4 Feb*
Italy	+ 3.4	+ 2.8 Mar	+ 2.3	+ 1.9	+ 1.6	+ 4.9 Feb	+ 1.2	+ 2.0 Feb*
Japan	– 0.8	– 0.1 Feb	– 0.5	– 0.3	+ 2.5	+ 1.1 Mar	na	+ 0.9 Feb
Netherlands	+ 6.9	+ 4.6 Mar	+ 3.6	+ 2.3	– 0.9	+ 5.3 Feb	+ 2.3	+ 3.0 Feb
Spain	+ 2.9	+ 3.9 Mar	+ 3.0	+ 2.4	– 0.6	+ 3.6 Feb	+ 1.9	+ 2.2 Q4
Sweden	na	+ 1.9 Mar	+ 1.6	+ 1.7	+ 0.6	+ 2.5 Feb	+ 3.7	+ 2.6 Dec*
Switzerland	– 0.1	+ 0.9 Mar	+ 1.2	+ 1.3	– 3.0	+ 0.5 Mar	na	+ 0.2 1999
United States	+ 4.2	+ 2.9 Mar	+ 2.8	+ 2.2	+ 5.7	+ 3.1 Mar	+ 4.3	+ 4.3 Mar
Euro area	+ 2.3	+ 2.6 Mar	+ 2.0	+ 1.6	– 0.2	+ 4.4 Feb	+ 2.4	+ 2.4 Q4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 0.7	+ 2.9 Mar	na	na	– 7.6	+ 3.2 Mar	+ 3.0	+ 4.3 Q4*
Greece	– 2.7	+ 3.0 Mar	na	na	– 4.3	+ 4.8 Feb	na	na
Iceland	+ 2.3	+ 3.9 Mar	na	na	+11.1	+ 4.2 April	+16.8	+ 9.2 Mar
Ireland	+ 0.9	+ 5.4 Mar	na	na	– 1.5	+ 3.5 Feb	+ 4.7	+ 7.4 Q3*
Luxembourg	– 0.1	+ 2.9 Mar	na	na	+ 2.5	+ 4.2 Feb	+ 7.7	+ 8.4 Oct*
New Zealand	– 0.8	+ 3.1 Q1	na	na	+15.0	+10.2 Q4	+ 1.8	+ 1.6 Q4
Norway	+ 6.1	+ 3.7 Mar	na	na	na	– 0.1 Mar	+ 7.7	+ 4.3 Q4*
Portugal	+ 4.4	+ 5.1 Mar	na	na	– 9.5	+ 6.0 Feb	na	+ 1.6 Jan*

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate. ‡New series.

Text refers only to the first 16 countries listed

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MONEY AND INTEREST RATES

Apr 26th 2001
From The Economist print edition

Interest rates eased in many euro area markets. Britain's broad-money growth slowed to 8.4% in the 12 months to March, down from a revised 9.4% in February; Canadian broad-money growth slowed for the third month running, to 5.6%.

	Money supply*			Interest rates % p.a. (Apr 25th 2001)							
	% rise on year ago			over-	3-mth money market		banks	2-year	10-year gov't		corporate
	narrow	broad		night	latest	year ago	prime	gov't bonds	latest†	year ago	bonds
Australia	+11.3	+ 7.4	Feb	5.00	4.70	6.13	8.00	4.61	5.79	6.37	7.07
Britain	+ 8.3	+ 8.4	Mar	5.03	5.31	6.25	6.50	4.90	5.02	5.29	6.58
Canada	+12.9	+ 5.6	Mar	4.65	4.43	5.47	6.50	4.73	5.67	6.09	7.15
Denmark	– 0.2	– 5.2	Feb§	4.80	5.16	4.50	8.00	4.95	5.16	5.58	7.16
Japan	+ 5.0	+ 2.6	Mar	0.01	0.03	0.04	1.38	0.06	1.32	1.72	0.68
Sweden	+ 5.0	+ 1.4	Mar	4.10	3.96	3.96	4.30	4.27	5.01	5.41	5.18§
Switzerland	– 3.9	+ 1.1	Mar	3.03	3.15	3.12	5.00	3.10	3.41	3.97	4.18
United States	– 0.2	+ 9.8	Mar	4.50	4.20	6.12	7.50	4.22	5.26	6.13	7.19
Euro area‡	+ 1.8	+ 4.7	Feb	4.79	4.78	4.04	4.50	4.48	4.89	5.21	5.70

†France 5.04, Germany 4.89, Italy 5.38. Benchmarks: Japan No.229 1.33, US 30-yr 5.75. ‡Germany for prime and bonds. §New series.

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4.Sources: Commerzbank, Den Danske, J.P. Morgan Chase, Royal Bank of Canada, OM Fixed Income Exchange, Warburg Dillon Read, WEFA Gp, Westpac, Thomson Financial Datastream.Rates cannot be construed as banks' offers.

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CURRENCY PROJECTIONS

Apr 26th 2001
From The Economist print edition

Quarterly forecasts from J.P. Morgan Chase suggest that the euro will strengthen a little against the American dollar over the next quarter, and then stay at the same level into next spring. The currency has weakened a little over the past three months. The exchange rates for sterling and Swiss francs are also expected to remain broadly stable over the next year. The Swedish krona is expected to appreciate in the next three months and to hit still loftier highs by April 2002. The yen is expected to weaken against the dollar, before regaining a little ground by next April. On an opposite course, the Brazilian *real* will strengthen a little this summer, before softening over the following nine months. The Mexican peso is predicted to experience a 10% fall against the dollar over the next year.

Exchange-rate forecasts
Currency units per $

	Apr 25th	3-month	12-month
Euro area*	0.89	0.91	0.91
Japan	122	129	124
Australia	1.99	2.01	1.91
Britain†	1.43	1.43	1.42
Canada	1.54	1.55	1.52
Denmark	8.35	8.17	8.23
Sweden	10.3	9.86	9.52
Switzerland	1.71	1.69	1.72
China	8.28	8.28	8.28
Singapore	1.82	1.84	1.78
South Korea	1308	1400	1310
Brazil	2.27	2.20	2.23
Mexico	9.26	9.93	10.4
Poland	4.02	3.98	4.15
Russia	28.9	29.7	30.0
South Africa	8.10	7.87	8.00

Source: J.P. Morgan Chase *$ per euro †$ per £

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TRADE, EXCHANGE RATES AND BUDGETS

Apr 26th 2001
From The Economist print edition

The visible-trade deficit in the euro area, which now includes Greece, narrowed to $9.7 billion in the year to February. In the same period Britain's visible-trade deficit shrank to $43.3 billion, and Italy's trade surplus remained at $1.6 billion. The dollar fell by 1.7% in trade-weighted terms, and the euro gained 1.8%.

	Trade balance*, $bn		Current account		Exchange rate		Currency units				Budget
	latest month	latest 12 months	$bn latest 12 mths	The Economist poll % of GDP, forecast 2001	2002	trade-weighted† Apr 25th	year ago	per $ Apr 25th	year ago	per £	per euro	per ¥100	balance % of GDP 2000‡
Australia	+ 0.28 Feb	– 3.6	– 15.1 Q4	-3.0	-3.2	70.6	76.6	1.98	1.69	2.85	1.78	1.62	0.9
Austria	– 0.57 Jan§	– 4.6	– 4.7 Feb	-2.4	-1.9	100.3	99.6	15.3	14.9	22.1	13.8	12.6	-1.6
Belgium	+ 0.37 Jan§	+ 12.8	+ 11.6 Dec	4.0	4.0	99.0	98.0	45.0	43.7	64.7	40.3	36.8	-0.1
Britain	– 3.32 Feb	– 43.3	– 24.5 Q4	-2.0	-1.9	105.7	111.9	0.69	0.63	–	0.62	0.57	2.7
Canada	+ 3.86 Feb	+ 39.3	+ 12.7 Q4	1.1	0.9	77.9	80.4	1.54	1.47	2.22	1.38	1.26	2.5
Denmark	+ 0.34 Feb	+ 5.5	+ 3.6 Feb	1.4	1.4	101.9	99.6	8.32	8.07	12.0	7.46	6.82	2.7
France	+ 0.89 Feb	+ 1.2	+ 22.6 Jan	1.9	1.8	101.7	100.7	7.31	7.10	10.5	6.56	5.99	-1.4
Germany	+ 5.74 Feb§	+ 51.9	– 24.2 Feb	-1.3	-1.1	98.7	97.3	2.18	2.12	3.14	1.96	1.79	1.4
Italy	+ 0.71 Feb	+ 1.6	– 5.8 Jan	-0.3	nil	72.6	71.9	2,158	2,097	3,107	1,936	1,768	-0.1
Japan	+ 8.86 Feb§	+ 108.6	+ 112.1 Feb	2.2	2.2	138.0	154.7	122	107	176	110	–	-6.0
Netherlands	+ 1.88 Feb§	+ 16.0	+ 13.7 Q4	3.9	3.9	97.9	96.7	2.46	2.39	3.54	2.20	2.01	1.6
Spain	– 3.10 Jan	– 39.6	– 17.7 Dec	-2.9	-2.6	74.2	73.5	185	180	267	166	152	-0.3
Sweden	+ 1.07 Mar	+ 11.0	+ 5.1 Feb	2.1	2.1	76.5	84.7	10.21	8.86	14.7	9.16	8.36	3.4
Switzerland	+ 0.09 Mar§	– 0.5	+ 31.1 Q4	11.8	11.2	107.7	103.6	1.71	1.70	2.46	1.53	1.40	na
United States	– 33.35 Feb	– 453.9	– 434.9 Q4	-4.3	-4.1	118.5	110.0	–	–	1.44	0.90	0.82	2.3
Euro area	– 0.92 Feb	– 9.7	– 25.4 Jan	-0.2	-0.1	79.0	77.3	1.11	1.08	1.60	–	0.91	0.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*												
Finland	+ 0.77 Feb§	+ 13.1	+ 9.6 Feb	na	na	78.2	76.0	6.59	6.44	9.48	5.91	5.40	4.0
Greece	– 1.90 Q4	– 7.5	– 8.1 Dec	na	na	57.5	57.7	378	364	544	339	309	-1.0
Iceland	– 0.01 Feb§	– 0.5	– 0.9 Q4	na	na	na	na	92.7	74.9	133	83.2	76.0	2.8
Ireland	+ 2.47 Dec	+ 25.9	+ 0.7 Q4	na	na	87.5	85.4	0.87	0.85	1.25	0.78	0.71	5.6
Luxembourg	– 0.15 Jan	– 2.4	+ 1.6 Q4	na	na	99.0	98.0	44.7	43.7	64.3	40.1	36.6	na
New Zealand	+ 0.16 Feb§	– 0.5	– 2.7 Q4	na	na	78.2	85.5	2.47	2.05	3.55	2.21	2.02	0.5
Norway	+ 2.08 Mar	+ 25.9	+ 22.5 Jan	na	na	93.8	91.2	9.06	8.81	13.0	8.13	7.42	14.0
Portugal	– 0.85 Jan§	– 14.7	– 10.4 Jan	na	na	89.4	88.3	222	217	320	199	182	-1.5

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.
§Not seasonally adjusted.

Text refers only to the first 16 countries listed

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STOCKMARKETS

Apr 26th 2001
From The Economist print edition

Further weakness in high-tech and telecom shares, as well as concerns about corporate profits, pushed the S&P 500 and the FTSE 100 down by 0.8% and 1.1% respectively. Political uncertainty in Japan made investors cautious, but the Nikkei still gained 1.4%.

Market indices	Apr 25th	2001 high	2001 low	% change on one week	% change on one year	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,241.5	3,312.1	3,094.3	+ 0.7	+ 3.6	– 2.7	+ 2.8	– 6.6
Austria (ATX)	1,199.6	1,219.5	1,052.2	– 0.7	– 5.3	– 30.9	+ 11.8	+ 6.8
Belgium (Bel 20)	2,811.2	3,030.4	2,591.6	– 2.2	– 13.4	– 23.6	– 7.1	– 11.2
Britain (FTSE 100)	5,827.5	6,334.5	5,314.8	– 1.1	– 10.4	– 15.9	– 6.3	– 9.7
Canada (Toronto Composite)	7,945.3	9,348.4	7,415.5	– 2.3	+ 12.7	– 30.2	– 11.1	– 13.4
Denmark (Copenhagen SE)	862.1	1,002.1	818.3	– 2.0	+ 40.5	– 17.0	– 4.9	– 9.1
France (SBF 250)	3,459.1	3,820.2	3,107.9	– 1.4	+ 27.3	– 21.2	– 8.3	– 12.3
Germany (Xetra DAX)	6,115.2	6,795.1	5,388.0	– 0.8	+ 16.1	– 24.2	– 4.9	– 9.2
Italy (BCI)	1,753.0	1,948.4	1,609.6	– 1.4	+ 12.3	– 19.7	– 8.5	– 12.6
Japan (Nikkei 225)	13,827.5	14,032.4	11,819.7	+ 1.4	– 18.3	– 64.5	+ 0.3	– 6.2
(Topix)	1,341.4	1,341.4	1,162.0	+ 1.6	– 0.2	– 53.5	+ 4.5	– 2.2
Netherlands (EOE)	576.1	642.3	518.3	– 1.5	+ 1.8	– 17.9	– 9.6	– 13.6
Spain (Madrid SE)	899.7	963.9	818.6	– 3.9	+ 2.2	– 21.5	+ 2.2	– 2.4
Sweden (Affarsvarlden Gen)	239.0§	292.7§	217.2§	– 1.6	– 93.5	– 40.2	– 13.8	– 20.3
Switzerland (Swiss Market)	7,209.5	8,135.4	6,574.0	– 1.8	– 0.6	– 14.3	– 11.4	– 15.9
United States (DJIA)	10,625.2	10,983.6	9,389.5	+ 0.1	– 0.9	– 9.4	– 1.5	– 1.5
(S&P 500)	1,228.8	1,373.7	1,103.3	– 0.8	– 9.7	– 19.6	– 6.9	– 6.9
(Nasdaq Comp)	2,059.8	2,859.2	1,638.8	– 0.9	– 22.3	– 59.2	– 16.6	– 16.6
Europe (FTSE Eurotop 300) *	1,415.4	1,545.5	1,279.0	– 1.5	+ 8.2	– 17.0	– 7.7	– 11.8
Euro area (FTSE Ebloc 100) *	1,281.7	1,404.1	1,143.9	– 1.4	+ 20.6	– 17.3	– 7.9	– 12.0
World (MSCI) †	1,120.2	1,249.2	1,014.6	+ 0.1	– 9.9	– 22.7	na	– 8.8
World bond market (Salomon) ‡	433.2	447.8	428.4	+ 1.3	– 1.5	– 5.8	na	– 2.4

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms. §Rebased.

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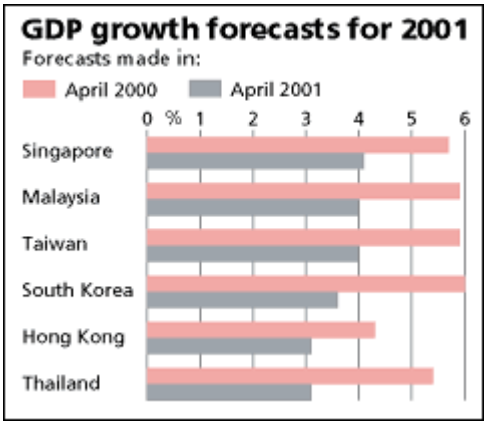
ECONOMIC FORECASTS

Apr 26th 2001
From The Economist print edition

Every three months *The Economist* polls a group of forecasters and calculates the average of their predictions for growth and current-account balances for 25 emerging economies. Since our poll in January, the panel has cut its growth forecast for most economies. The main exception is China, which is still expected to grow by a brisk 7.5%. The biggest downward revision to growth was in Turkey: after its recent crisis, its economy is now expected to contract by more than 3% this year. The table shows, for the first time, forecasts for 2002.



Asian Gloom

East Asia's growth forecasts have been severely pruned. The region is being hurt badly by the sharp downturn in America, its biggest export market. A year ago South Korea was expected to grow by 6% in 2001. Now it is tipped to expand by only 3.6%—down from 9% last year.

The Economist poll of forecasters

April

	Real GDP % change		Current account % of GDP	
	2001	2002	2001	2002
China	7.5	7.8	0.8	nil
Hong Kong	3.1	4.6	3.1	2.0
India	6.0	6.3	–1.6	–1.6
Indonesia	3.0	4.1	3.4	2.4
Malaysia	4.0	5.4	6.4	4.6
Philippines	2.6	3.6	8.9	8.1
Singapore	4.1	5.6	19.9	18.4
South Korea	3.6	5.2	2.5	1.5
Taiwan	4.0	5.2	2.9	3.0
Thailand	3.1	4.3	5.5	4.4
Argentina	1.6	3.2	–4.0	–3.3
Brazil	3.9	4.1	–6.8	–7.1
Chile	4.6	5.2	–2.0	–2.2
Colombia	3.1	3.6	–1.6	–2.1
Mexico	2.6	4.6	–5.5	–6.9
Peru	1.1	4.2	–2.4	–2.6
Venezuela	4.0	3.4	4.9	2.8
Egypt	4.8	5.6	–1.5	–1.6
Israel	2.6	4.5	–2.3	–1.8
South Africa	3.2	3.2	–1.0	–1.2
Turkey	–3.1	4.6	1.0	–0.5
Czech Republic	3.5	3.8	–4.7	–4.4
Hungary	5.0	5.3	–4.4	–4.2
Poland	3.6	4.5	–5.7	–6.1
Russia	4.0	3.7	13.1	9.7

Sources: ABN Amro; Deutsche Bank; EIU; Goldman Sachs; HSBC; ING Barings; J.P.Morgan Chase; Merrill Lynch; Salomon Smith Barney; UBS Warburg.

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FINANCIAL MARKETS

Apr 26th 2001
From The Economist print edition

Buenos Aires plunged on fears of a possible default on foreign debt, leaving the market's index 22% lower than its January 23rd peak. Shockwaves echoed through other Latin American bourses and dragged the Brazilian *real* and Chilean peso to historic lows. Bombay further recovered from recent lows; it has risen by 13.1% in the past two weeks.

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Apr 25th		Dec 31st 2000	
	Apr 25th	year ago	Apr 25th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.9	na	2,213.3	− 2.5	+ 1.0	+ 1.0
Hong Kong	7.80	7.79	11.2	4.25	13,249.6	+ 2.1	− 12.2	− 12.2
India	46.8	43.8	67.4	8.16	3,600.8	+ 4.7	− 9.3	− 9.6
Indonesia	11,985	8,000	17,255	16.19	353.2	− 0.9	− 15.2	− 31.5
Malaysia	3.80	3.80	5.47	3.30	573.0	+ 0.5	− 15.7	− 15.7
Philippines	50.6	41.4	72.8	11.56	1,462.2	+ 2.5	− 2.2	− 3.3
Singapore	1.82	1.71	2.62	2.13	1,670.8	+ 4.0	− 13.3	− 17.2
South Korea	1,308	1,108	1,883	5.84	566.3	+ 4.9	+ 12.2	+ 8.6
Taiwan	32.9	30.6	47.3	4.60	5,516.2	+ 0.1	+ 16.3	+ 17.0
Thailand	45.6	38.1	65.7	2.50	296.9	− 0.2	+ 10.3	+ 4.9
Argentina	1.00	1.00	1.44	14.33	420.8	− 9.9	+ 0.9	+ 0.8
Brazil	2.30	1.79	3.30	16.30	14,163.0	− 5.8	− 9.2	− 22.9
Chile	606	514	872	3.24*	4,971.1	+ 0.6	+ 2.1	− 3.3
Colombia	2,347	1,999	3,379	12.82	817.8	− 1.1	+ 14.7	+ 9.3
Mexico	9.32	9.41	13.4	13.92	5,933.7	− 4.0	+ 5.0	+ 8.2
Peru	3.59	3.49	5.2	14.62	1,206.5	− 0.9	− 0.2	− 1.9
Venezuela	711	675	1,023	13.34	7,365.4	− 2.8	+ 8.4	+ 6.7
Egypt	3.89	3.43	5.60	9.11	6,241.6	+ 4.5	− 18.5	− 18.5
Israel	4.16	4.05	5.98	5.25	406.8	+ 2.3	− 17.8	− 20.0
South Africa	8.11	6.79	11.7	10.69	8,877.1	+ 1.3	+ 6.6	− 0.5
Turkey	1,215,000	606,430	1,749,236	77.00	10,113.0	+11.5	+ 7.2	− 40.9
Czech Republic	38.7	39.3	55.7	5.01	419.2	− 4.0	− 12.4	− 14.7
Hungary	298	280	429	11.30	6,939.3	− 2.2	− 11.6	− 16.3
Poland	4.02	4.30	5.79	16.82	15,427.1	+ 0.1	− 13.6	− 11.1
Russia	28.9	28.5	41.6	25.00	171.7†	+ 0.1	+ 20.8	+ 19.9

*Inflation adjusted. †In dollar terms.

Sources: National statistics offices, central banks and stock exchanges; Primark Datastream; EIU; Reuters; Warburg Dillon Read; J.P. Morgan; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Bank Ekspres; Deutsche Bank; *Russian Economic Trends*.

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ECONOMY

Apr 26th 2001
From The Economist print edition

Hong Kong's consumer prices edged up by 0.4% in March, but prices still slid by 1.3% over the year. After dipping by 2.7% in February, Poland's industrial production rebounded with a better-than-expected increase of 14.6% in March; year-on-year growth rose to 2.8%. Colombia's 12-month trade surplus narrowed to $1.3 billion in February.

	% change on year earlier			Latest 12 months, $bn		Foreign reserves*, $bn	
	GDP	Industrial production	Consumer prices	Trade balance	Current account	Latest	Year ago
China	+ 8.1 Q1	+12.1 Mar	+ 1.6 Feb‡	+23.7 Mar	+15.7 1999	171.3 Jan	159.0
Hong Kong	+ 6.8 Q4	− 0.2 Q4	− 1.3 Mar	−11.7 Feb	+ 8.8 Q4	114.6 Mar	93.8
India	+ 6.0 Q2	+ 0.6 Feb	+ 3.0 Feb	− 6.7 Feb	− 5.4 Q4	39.5 Mar	35.7
Indonesia	+ 5.2 Q4	+ 4.5 Q4‡	+ 10.6 Mar	+27.4 Feb	+ 5.5 Q3	22.6 Dec	26.5
Malaysia	+ 6.5 Q4	+ 4.3 Feb	+ 1.5 Mar	+16.1 Feb	+ 9.7 Q3	28.5 Feb	33.2
Philippines	+ 3.6 Q4	− 2.4 Jan	+ 6.7 Mar	+ 7.2 Feb	+ 9.3 Dec	12.5 Jan	12.9
Singapore	+ 4.6 Q1	+13.3 Feb	+ 1.4 Feb	+ 3.8 Mar	+21.8 Q4	80.0 Jan	75.9
South Korea	+ 4.6 Q4	+ 6.2 Mar	+ 4.4 Mar	+14.0 Mar	+12.8 Mar	94.4 Mar	83.6
Taiwan	+ 4.1 Q4	+ 9.1 Feb	+ 0.4 Mar	+10.3 Mar	+ 9.6 Q4	110.1 Feb	113.6
Thailand	+ 3.1 Q4	+ 2.4 Feb	+ 1.4 Mar	+ 4.5 Feb	+ 8.1 Feb	32.5 Feb	31.2
Argentina	− 2.0 Q4	− 0.4 Mar	− 1.0 Mar	+ 1.5 Feb	− 9.4 Q4	25.4 Feb	24.7
Brazil	+ 4.4 Q4	+ 1.5 Feb	+ 6.3 Mar	− 1.3 Mar	−26.4 Feb	35.2 Jan	36.2
Chile	+ 4.5 Q4	− 0.2 Feb	+ 3.5 Mar	+ 1.3 Feb	− 1.0 Q4	14.5 Feb	14.0
Colombia	+ 2.1 Q4	+ 1.5 Feb	+ 7.8 Mar	+ 1.3 Feb	− 0.1 Q4	9.3 Mar	8.3
Mexico	+ 5.1 Q4	− 3.7 Feb	+ 7.2 Mar	− 8.7 Feb	−17.7 Q4	39.1 Feb	33.3
Peru	− 2.5 Feb	+ 0.2 Jan	+ 3.6 Mar	− 0.4 Feb	− 1.7 Q4	8.4 Jan	9.1
Venezuela	+ 5.6 Q4	na	+ 12.5 Mar	+ 6.6 Oct	+13.4 Q4	12.9 Feb	11.5
Egypt	+ 6.5 2000†	+ 9.4 2000†	+ 2.6 Jan	−10.4 Q4	− 0.8 Q4	13.1 Dec	14.5
Israel	+ 3.0 Q4	+10.7 Jan	+ 0.7 Mar	− 7.2 Mar	− 0.7 Q3	23.9 Mar	22.8
South Africa	+ 3.3 Q4	+ 1.6 Feb	+ 7.4 Mar	+ 3.4 Feb	− 0.5 Q4	6.2 Feb	6.4
Turkey	+ 8.3 Q4	− 5.2 Feb	+ 37.5 Mar	−27.1 Jan	−10.2 Jan	21.7 Feb	23.2
Czech Republic	+ 3.9 Q4	+ 6.5 Feb	+ 4.1 Mar	− 3.5 Mar	− 2.3 Q4	13.0 Feb	12.6
Hungary	+ 4.2 Q4	+18.5 Feb	+ 10.5 Mar	− 2.4 Feb	− 1.8 Feb	10.7 Mar	10.7
Poland	+ 2.4 Q4	+ 2.8 Mar	+ 6.2 Mar	−10.7 Feb	− 9.4 Feb	26.6 Feb	24.5
Russia	+ 7.7 2000	+ 3.6 Mar	+ 23.8 Mar	+61.3 Jan	+46.4 Q4	24.6 Feb	9.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*						
Pakistan	+ 3.9 1999†	+ 6.8 Sep	+ 4.2 Mar	− 1.9 Jan	− 2.5 1999	1.1 Jan	1.6
Saudi Arabia	+ 0.4 1999	na	− 1.3 Dec	+24.9 1999	+ 0.4 1999	17.1 Jan	16.2

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series.

Text refers only to the first 25 countries listed

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